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IN THE

Supreme Court of the United States

October Term, 1965

No. 659

FRANK ROSS,

Petitioner,

—versus—

F. E. STANLEY, W. J. BOWEN, HAROLD A. MARTIN, O. PAUL HERZIG, MIDWESTERN CONSTRUCTORS, INC., WALCO ENGINEERING & CONSTRUCTION COMPANY (individually and as joint venturers doing business under the firm name and style of MIDWESTERN-WALCO CONTRACTORS), BARNARD AND BURK PIPELINE ENGINEERING COMPANY, INC., HARBERT CONSTRUCTION CORPORTION, FLORIDA GAS TRANSMISSION COMPANY and FLORIDA GAS COMPANY,

Respondents,

—and—

JOHN M. HARBERT III, LEON M. PAYNE, THEODORE RINEHART, CHARLES C. BARNARD, JACK S. BURK and PAUL C. WALLACK,

Defendants.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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32 CASE PRESS INC., 421 Hudson St., N.Y.—ORegon 5-4540

TABLE OF CONTENTS

	PAGE
Opinions below	1
Jurisdiction	2
Questions presented	2
Statutes involved	3
Statement	3
The complaint	3
The statute of limitations	5
The District Court decision	6
The FPC decisions	7
The Court of Appeals decision	8
Reasons for granting the writ	10
I. In passing on the statute of limitations, the Court of Appeals	
a) has decided an important question of federal law which has not been, but should be, settled by this Court, and	
b) has decided an important state question in a way in conflict with applicable state law	10
1. Petitioner's claims are an essential ingredient of the regulatory scheme of the Natural Gas Act and the Federal Power Act	10
2. The decision below effectively defeats the policy of the Natural Gas Act and the Federal Power Act and misapplies Florida state law	13
3. The importance of review by this Court	18

PAGE

II. The modification of the District Court's decision by the Court of Appeals so far departs from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's supervisory power 19

CONCLUSION 21

APPENDIX A—Opinions of the Court of Appeals 1a

APPENDIX B—Petition for rehearing 21a

APPENDIX C—Order of the Court of Appeals denying Petition for Rehearing 27a

APPENDIX D—Statutes involved 28a

APPENDIX E—Opinion No. 431 of Federal Power Commission 30a

APPENDIX F—Opinion No. 431-A of Federal Power Commission 82a

APPENDIX G—Opinion No. 431-B of Federal Power Commission 101a

TABLE OF CASES

Ballard v. Searls, 130 U.S. 50 (1889) 7
Brown v. Bullock, 294 F. 2d 415 (Cir. 2, 1961) 13
Canter v. American Insurance Co., 3 Pet. 307 (1830) 20
Carnes v. United States, 186 F. 2d 648 (Cir. 10, 1951) 17
Cleary v. Higley, 154 Misc. 158, 277 N.Y.S. 63 (1934), aff'd 246 App. Div. 698, 284 N.Y.S. 989 (1935) 14
Colorado Interstate Gas Co. v. Federal Power Com'n, 209 F. 2d 717 (Cir. 10, 1954) 11
Commercial Bank v. Ten Eyck, 48 N.Y. 305 (1872) .. 14

PAGE

Dodd v. Pittsburgh, etc. R. Co., 127 Ky. 762, 106 S.W. 787 (1908) 17

Federal Power Com'n v. Hope Natural Gas Co., 320 U.S. 591 (1944) 11

Flack v. Domestic L. & A. Ins. Co., 232 Ky. 176, 22 S.W. 2d 582 (1929) 14

Fletcher v. Jones, 105 F. 2d 58 (Cir. D.C., 1939), cert. den. 308 U.S. 555 7

Fujii v. Dulles, 224 F. 2d 906 (Cir. 9, 1955) 7

Helvering v. Pfeiffer, 302 U.S. 247 (1937) 20

R. O. Holton & Co. v. Hull, 140 Fla. 687, 192 So. 229 (1940) 16

Interstate Natural Gas Co. v. Southern California Gas Co., 209 F. 2d 380 (Cir. 9, 1953) 7

Johnson v. Kennedy, 201 Ga. 838, 41 S.E. 2d 522 (1947) 14

Letulle v. Scofield, 308 U.S. 415 (1940) 20

Louisville Hydro-Electric Co., 1 F.P.C. 130 10

Martin v. Hardy, 251 Mich, 413, 232 N.W. 197 (1930) 14

The Montana Power Co., 4 F.P.C. 213 (1945) 10

Morley Construction Co. v. Maryland Casualty Co., 300 U.S. 185 (1937) 20

Pennsylvania Power & Light Co., 3 F.P.C. 89 10

Pennsylvania Water & Power Co., 8 F.P.C. 1 (1949) 10

Pepper v. Litton, 308 U.S. 295 (1939) 12

Porter v. Block, 156 F. 2d 264 (Cir. 4, 1946) 7

Royal Indemnity Co. v. Knott, 101 Fla. 1495, 136 So. 474 (1931) 16

Schildhaus v. Moe, 319 F. 2d 587 (Cir. 2, 1963) 20

S.E.C. v. Capital Gains Research Bureau, 375 U.S. 180 (1963) 13

South Carolina Generating Co. v. Federal Power Com'n, 261 F. 2d 915 (Cir. 4, 1958) 10

St. Croix Falls M.I. Co., 3 F.P.C. 13 (1942) 4, 10, 12

State Corporation Com'n v. Federal Power Com'n, 206 F. 2d 690 (Cir. 8, 1953) 11

PAGE

Chas C. Steward Mach. Co. v. Davis, 89 F. 2d 207 (Cir. 5, 1937), aff'd 301 U.S. 548 (1937) 7

Tallman v. Udall, 324 F. 2d 411 (Cir. D.C., 1963) 20

Texarkana v. Arkansas Louisiana Gas Co., 306 U.S. 188 (1939) 7

Theurer v. Condon, 34 Wash. 2d 448, 209 P. 2d 311 (1949) 17

Town of Miami Springs v. Lawrence, 102 So. 2d 143 (Fla., 1958) 16

U.S. v. Reid, 251 F. 2d 691 (Cir. 5, 1958) 17

Wardell v. Union Pacific R. Co., 103 U.S. 651 (1881) 12

Zelinger v. Uvalde Rock Asphalt Co., 316 F. 2d 47 (Cir. 10, 1963) 20

Table of Statutes

Federal Power Act
§ 308, 16 USC § 824g 3, 10, 28a

Federal Rules of Civil Procedure
Rule 15(d) 7

Florida Statutes (1963)
§ 95.11(5) 3, 5, 29a

Judicial Code, 28 USC
§ 1254(1) 2
§ 1332 2

Natural Gas Act, 15 USC§§ 717 et seq. 2
§ 2, 15 USC § 717a 3, 4, 28a
§ 6, 15 USC § 717e 3, 10, 28a

Table of Authorities

3 Fletcher, Corporations (1965)
§ 992, p. 533 14

2 Scott on Trusts (2d Ed., 1956)
§ 205, p. 1523 16

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Defendants.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Frank Ross, the plaintiff-appellant below, petitions for a writ of certiorari to review the judgment of the Court of Appeals for the Fifth Circuit of June 1, 1965 and its order denying rehearing of July 13, 1965.

Opinions Below

The opinion of the District Court for Middle Florida (R 127)* and the prevailing, concurring and dissenting opinions of the Fifth Circuit (pp. 1a, 12a, 17a)* have not or not yet been reported.

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* Citations to pages of the record below are prefaced by the letter "R". Citations to pages of the Appendices to this petition are followed by the letter "a".

Jurisdiction

The District Court's jurisdiction was invoked on the ground of diversity of citizenship and jurisdictional amount, 28 USC § 1332 (R 44-46). The judgment of the Court of Appeals was entered June 1, 1965 (p. 1a). Its order denying petitioner's timely application for rehearing (p. 21a) was entered July 13, 1965 (p. 27a). This Court's jurisdiction is invoked under 28 USC § 1254(1).

Questions Presented

1. Where the District Court dismissed petitioner's claim *without prejudice* as premature (thus preserving his right to renew the action later) and *only petitioner appealed,* did the Court of Appeals err in dismissing the claim *with prejudice* as barred by limitations (thus cutting off petitioner's right preserved by the District Court)?

2. In this stockholder's action brought on behalf of a publicly held natural gas company against its fiduciaries for securing to themselves $8,000,000 of profits contrary to the Natural Gas Act, 15 USC §§ 717 et seq., with the result that the Federal Power Commission denied the company the right to recoup this sum as part of its rate base, did the Court of Appeals err in holding that the statute of limitations had begun to run at a time when actually no action could have been brought because the company had not yet suffered any loss and the defendants had not yet realized any profit and no certainty existed that losses or profits would ever accrue?

3. Did the dismissal of the action on this ground deprive the natural gas company and its public stockholders of all effective remedy against their wrongdoing fiduciaries, contrary to the purpose and policy of the Natural Gas Act, which require that a natural gas company, upon losing part of its invested capital through the exclusion from its rate base of the profits made by its fiduciaries in the construction of its plant, be able to recover such loss from the guilty fiduciaries?

4. Did the Court of Appeals err in holding that petitioner's claims are barred by the statute of limitations?

Statutes Involved

Pertinent parts of §§ 2 and 6 of the Natural Gas Act, 15 USC §§ 717a and 717e, of § 208 of the Federal Power Act, 16 USC § 824g, and of § 95.11(5) of the Florida Statutes (1963) are set forth in Appendix D (pp. 28a-29a).

Statement

The Complaint.

Petitioner, a stockholder of respondent Florida Gas Company ("FGC"), brought this action derivatively on behalf of FGC and its wholly owned subsidiary, respondent Florida Gas Transmission Company ("Transmission") (R. 46). The real defendants are the directors of the gas companies and four construction and engineering firms (the "contracting firms") owned or controlled by the directors (R 47-52).

Transmission owns and operates an interstate pipeline carrying natural gas from Texas to Florida. It is a "natural gas company" under § 2 of the Natural Gas Act (*infra* p. 28a); as such, it is subject to the jurisdiction of the Federal Power Commission ("FPC") (R 47).

The FPC sets the rates of pipeline companies so as to allow them a reasonable return on the "actual legitimate cost" of their properties; see § 6 of the Act (*infra* p. 28a). This cost is the rate base. In order to prevent the artificial inflation of the rate base, the FPC excludes from it, as not "legitimate", any cost item which represents profits made by an "affiliate" (the "no-profit-to-affiliates rule"). The reason underlying this federally based rule is that "contracts between affiliated companies [are] not entered into at arm's-length" and that "a trustee ought not to make a profit dealing with a trust"; *St. Croix Falls M.I. Co.*, 3 F.P.C. 13, 20, 21 (1942) (R 53).

A pipeline investment excluded from the rate base under this rule is, in effect, lost to the company, because it produces no return and cannot be amortized (R 52-53).

The four contracting firms, the directors, their representatives and associates were the controlling stockholders of Transmission and were, therefore, "affiliates" within the FPC's rule (R 70-71). In November 1958, when the building of the pipeline was to start, defendants caused Transmission to award substantial construction and engineering contracts to the four firms (R 67-69). The terms of the contracts were such as to afford the firms a reasonable prospect, but no assurance of profits (R 68-69; p. 22a).

By the time the pipeline was completed in 1960 (R 48), the four firms realized about $8,000,000 of profits (R 54, 68; p. 47a). In early 1962, the FPC's staff instituted proceedings before the Commission to eliminate respondents' profits from Transmission's rate base; as a consequence, the FPC entered a consent order of June 8, 1962 temporarily reducing Transmission's rates, although without prejudice to the FPC's ultimate determination of the rate base issue (R 53-55).

Two months later this action was commenced on August 3, 1962 (R 15). The complaint (R 44) alleges that, "If the FPC ultimately eliminates [respondents' profits] from Transmission's rate base * * *, Transmission's pipeline investment will be lost to the extent of the cost items so eliminated"; and it adds that Transmission has already "suffered substantial injury and damages by reason of the FPC's aforesaid order of June 8, 1962" (R 55). Respondents, as directors or persons in control, were fiduciaries (R 70). They knew or should have known that the award of the contracts to affiliates exposed Transmission to the danger that the FPC might eliminate their profits from the rate base (R 71). They should have avoided this danger by awarding the contracts to non-affiliates or by themselves taking the contracts at cost (R 71). The complaint prays for an accounting of respondents' profits and of the losses of the gas companies (R 76).

The statute of limitations.

Respondents moved, without answering, to dismiss the complaint on the ground, among others, that the action was barred by the three-year Florida statute of limitations, § 95.11(5) Fla. Stat. (*infra* p. 29a). For purposes of the statute of limitations, we summarize:

The action was commenced on August 3, 1962, more than three years after the award of the contracts in November 1958. However, in November 1958 respondents had realized no profits, the gas companies had sustained no damages, and it was completely uncertain whether any profits would ever arise or, if they did, whether they would be excluded from the rate base. Respondents themselves have conceded that the uncertainty of profits and damages would have prevented the institution of suit in November 1958 (p. 22a):

> "Whether the contracting firms 'would profit' • • • was 'speculative and uncertain,' not a fact on which a cause of action can be based. Indeed, the contracting firms when agreeing for a firm price to render the services stood not only possibly to make a profit, but to the contrary stood to sustain a loss."

The action was commenced *less than three years* after respondents realized their profits in 1960; and less than three years after these profits resulted in the FPC's rate reduction order of June 8, 1962. Indeed, the action was commenced *before* the FPC's decision (to be presently mentioned) which actually eliminated the profits from the rate base.

The District Court decision.

The District Court disposed separately of the claim for the damages of the gas companies and the claim for the profits of respondents. It dismissed the damage claim as barred by limitations; and it dismissed the profit claim as premature because the FPC had not yet decided the rate base proceeding (R 130-2). The dismissal of the profit claim was *without prejudice* to the institution of a further action after the FPC would render its final decision (R 133).

The FPC decisions.

Only petitioner appealed from the District Court's decision. While the appeal was pending, the FPC rendered its decisions eliminating defendants' profits of about $8,000,000 from Transmission's rate base and overruling two successive motions for rehearing (Opinions No. 431 of June 8, 1964; No. 431-A of August 5, 1964; No. 431-B of October 2, 1964).*

Since a federal appellate court may take judicial notice of the acts and decisions of a federal administrative agency,** the parties submitted copies of the FPC decisions to the Court of Appeals; and copies thereof are annexed hereto as Appendices E, F and G (pp. 30a, 82a, 101a).***

The FPC decisions reveal the cardinal importance of petitioner's claims to the regulatory scheme of the Natural Gas Act. Thus, Commissioner O'Connor's dissenting opinion objected to the application of the no-profit rule because of its disastrous impact on Transmission and its stockholders (p. 94a):

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* Petitions to review these decisions are pending in the Court below.

** *Chas. C. Steward Mach. Co.* v. *Davis*, 89 F. 2d 207, 210 (Cir. 5, 1937), aff'd 301 U.S. 548 (1937); *Interstate Natural Gas Co.* v. *Southern California Gas Co.*, 209 F. 2d 380, 385 (Cir. 9, 1953); *Fletcher* v. *Jones*, 105 F. 2d 58, 61-62 (Cir. D.C., 1939), cert. den. 308 U.S. 555.

*** Petitioner moved in the Court of Appeals for leave, if necessary, to plead the FPC decisions by supplemental complaint, Rule 15(d) FRCP, but the Court did not reach or pass on the motion. The propriety of such a motion at the appellate stage is well settled; *Texarkana* v. *Arkansas Louisiana Gas Co.*, 306 U.S. 188, 202-3 (1939); *Porter* v. *Block*, 156 F. 2d 264, 271 (Cir. 4, 1946); see *Ballard* v. *Searls*, 130 U.S. 50 (1889); *Fujii* v. *Dulles*, 224 F. 2d 906, 907 (Cir. 9, 1955).

> "Thus, the net effect of the majority's decision is to preclude from recovery, through the allowance for depreciation, over $8,000,000 in plant costs; to give solely to the ratepayers the $4,000,000 benefits of a legitimate tax deduction; and to deny a return to investors of over $7,375,000. The impact, obviously, falls upon the investor but for whom this concededly valuable project could never have been financed. The unfortunate investor, lulled into a regrettably false sense of security by regulatory inaction, now finds himself entrapped through no fault of his own." (Footnote omitted.)

In response to this argument, Chairman Swidler's majority opinion held (p. 89a):

> "Commissioner O'Connor's dissent points to possible losses to investors. Where such losses are the result of insiders' profits, the investors may have legal remedies through the courts, whereas the consumers must depend upon the action of the regulatory bodies having rate and accounting jurisdiction."

As postulated by the FPC, the present action seeks the legal remedies for the losses sustained by Transmission as "the result of insiders' profits".

The Court of Appeals decision.

The majority of the Court below held that petitioner's claims for damages as well as profits accrued in November 1958 and are, therefore, barred by Florida's three-year statute of limitations (pp. 1a, 12a). It affirmed the District Court's dismissal of the damage claim, but directed that the profit claim be likewise dismissed with prejudice (pp. 2a, 11a-12a, 16a-18a).

The prevailing, concurring and dissenting opinions in the Court of Appeals are at odds with each other and with the decision of the District Court.

Chief Judge Tuttle recognized that "The true essence of the appellant's grievance * * * is [the] exclusion [of respondents' profits] from Transmission's rate base with the consequent damage to the corporation" (p. 11a). Neither of these essential facts—respondents' profits and their exclusion from the rate base—existed in November 1958; and admittedly it was quite uncertain at that time whether they would ever exist (p. 22a). Nevertheless, Judge Tuttle held that this action could have been "maintained to a successful result" in November 1958 (pp. 6a-7a, 11a), on the theory that only the "amount" of damages remained to be "computed" or "ascertained" at a later date (pp. 9a, 10a) and that this uncertainty "was the very circumstance that required the filing of proceedings of an equitable nature" (p. 10a). His opinion does not state what kind of "successful result" could have been achieved if this action had been brought and tried before a court of equity in November 1958; nor does it state what damages Transmission would have suffered if respondents had realized no profits in 1960 or if, in 1964, the FPC had not excluded the profits from the rate base.

Judge Simpson's concurring opinion, contrary to Judge Tuttle's, held that petitioner's remedy at law for money had and received was adequate (p. 13a); and it held, contrary to all authorities, that not only an actual but a "potential" wrong starts the running of limitations (pp. 15a-16a).

Judge Rives, dissenting, held that petitioner's claims could not accrue unless and until respondents realized profits and the FPC eliminated them from the rate base (pp. 18a-20a). He further held that the Court of Appeals had no power to dismiss the profit claim "with prejudice", since the District Court had dismissed it "without prejudice" and only petitioner had appealed (pp. 17a-18a).

REASONS FOR GRANTING THE WRIT

I.

In passing on the statute of limitations, the Court of Appeals

a) has decided an important question of federal law which has not been, but should be, settled by this Court, and

b) has decided an important state question in a way in conflict with applicable state law.

1. Petitioner's claims are an essential ingredient of the regulatory scheme of the Natural Gas Act and the Federal Power Act.

The no-profit-to-affiliates rule has been developed under § 6 of the Natural Gas Act (p. 28a) and its statutory model, § 208 of the Federal Power Act, 16 USC 824g (pp. 28a-29a). It has been applied in a host of cases,* is a vital part of the federal regulation of natural gas and electric companies,

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* See, e.g., among many others, *South Carolina Generating Co.* v. *Federal Power Com'n*, 261 F. 2d 915, 920 (Cir. 4, 1958), and cases there cited; *Pennsylvania Water & Power Co.*, 8 F.P.C. 1, 19, 23 (1949); *The Montana Power Co.*, 4 F.P.C. 213, 228 (1945); *St. Croix Falls M.I. Co.*, 3 F.P.C. 13, 20, 21 (1942); *Pennsylvania Power & Light Co.*, 3 F.P.C. 89; *Louisville Hydro-Electric Co.*, 1 F.P.C. 130.

and is crucial to the statutory purpose of protecting the consumers of natural gas and electricity against excessive rate charges.

Without appropriate safeguards, however, the application of the no-profit rule threatens to be self-defeating. The financial integrity of public utility companies depends on their ability to derive a fair return from, and to amortize, their investments. The elimination of large amounts of invested capital from the rate base undermines, therefore, the companies' financial integrity. Without a sound financial structure, the companies cannot fulfill the statutory purpose of assuring a reliable supply of natural gas and electricity to the consuming public; nor can they hope to attract essential capital from investors. The interests of consumers and investors alike are at the heart of the statutory scheme; *Federal Power Com'n* v. *Hope Natural Gas Co.*, 320 U.S. 591, 603, 605 (1944); *Colorado Interstate Gas Co.* v. *Federal Power Com'n*, 209 F. 2d 717, 724 (Cir. 10, 1954); *State Corporation Com'n* v. *Federal Power Com'n*, 206 F. 2d 690, 721 (Cir. 8, 1953).

The operation of the no-profit rule thus involves a conflict between the statutory purpose of protecting consumers against excessive rate charges and the statutory purpose of maintaining the financial integrity of utility companies. The task of balancing these conflicting interests rests with the FPC. The Commission has resolved the conflict in the very proceeding which gave rise to the present action. The dissenting opinion of Commissioner O'Connor pointed to the $8,000,000 loss sustained by Transmission and its stockholders through the elimination of that amount from the rate base (p. 94a). The Commission's majority opinion

responded that the $8,000,000 need not be lost; it may be recouped through legal action against the insiders for their unlawful profits (p. 89a).

The claim for recoupment is thus an integral element of the federal regulation of natural gas and electric companies. The loss inflicted on the utility companies and their stockholders through the curtailment of the rate base is compatible with the broad statutory purposes because of the remedy available against the wrongdoing insiders. The allowance of the claim is the indispensable correlate of the rule excluding insiders' profits from the rate base.

The present action asserts that claim against Transmission's insiders or affiliates. It rests on the age-old principle that a fiduciary cannot make a profit from dealing with the trust property and is accountable for the losses he inflicts on his cestui through breach of his duties. Respondents are the directors and controlling stockholders of the gas companies. "A director is a fiduciary. So is a dominant or controlling stockholder or group of stockholders;" *Pepper* v. *Litton*, 308 U.S. 295, 306 (1939; citations omitted). Respondents breached their fiduciary duties: In order to seek personal gain, they awarded Transmission's construction and engineering contracts to themselves, although they knew the danger that their potential profits might be excluded from Transmission's rate base.

Respondents' liability has its roots in federal law. The no-profit rule, a principle of federal law and administration, embodies the fiduciary maxim that "a trustee ought not to make a profit dealing with a trust"; *St. Croix Falls M.I. Co., supra* (3 F.P.C., at 21), citing *Wardell* v. *Union Pacific R. Co.*, 103 U.S. 651, 657-8 (1881), and other de-

cisions of this Court. The common-law fiduciary principle has thus become part of the federal law governing the relations between natural gas and electric companies and their directors and controlling stockholders. This federalization of the common law is no isolated phenomenon; in recent years, the federal law governing federally controlled companies has emphasized the fiduciary principle with ever sharpening insistence.* Under the Natural Gas Act and the Federal Power Act, the recognition and enforcement of fiduciary claims such as those here alleged is of pivotal importance to the effective administration of the statutes.

2. The decision below effectively defeats the policy of the Natural Gas Act and the Federal Power Act and misapplies Florida state law.

The manner of applying a statute of limitations may be just as destructive of a claim as the complete refusal to enforce it. The Court below has so applied the statute of limitations as to nullify the gas companies' right to recoup their losses and respondents' profits. In reaching its conclusion, the Court enunciated rules of law contrary to established principles of federal and Florida state law. If the decision below is permitted to stand, it will effectively outlaw the right of natural gas and electric companies to seek the kind of judicial redress which the FPC deemed essential to the administration of the no-profit rule.

This result flows inevitably from the holding of the Court of Appeals that petitioner's claims accrued, and the three-year statute of limitations began to run, in November 1958, when respondents awarded the construction and engineer-

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* See, *e.g.*, *S.E.C.* v. *Capital Gains Research Bureau*, 375 U.S. 180, 193-4 (1963; Investment Advisers Act); *Brown* v. *Bullock*, 294 F. 2d 415, 421 (Cir. 2, 1961; Investment Company Act).

ing contracts to themselves. At that time, petitioner could not have sued for respondents' profits because they had none, nor could he have sued for the damages of the gas companies because they had not suffered any.

(a) The Court below recognized that "limitation never commences to run until the time when the plaintiff could first have maintained his action to a successful result" (p. 6a). Had this action been brought and tried in November 1958, the result could not possibly have been "successful". It is thoroughly settled that an action—legal or equitable—to recover damages from wrongdoing corporate directors must be dismissed unless the plaintiff proves that the wrongdoing resulted in actual damages to the corporation.* No such proof would have been possible in November 1958.

The only damages sought and recoverable in this action are those due to the elimination of respondents' profits from Transmission's rate base. In November 1958, Transmission had no rate base (because the pipeline was not yet built); respondents had no profits (because they had not yet performed their services); and, of course, the nonexistent profits had not been eliminated from the nonexistent rate base. Respondents did not realize their profits until 1960; proceedings for their elimination from the rate base were not commenced until 1962; their actual elimination did not occur until 1964.

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* *Johnson* v. *Kennedy*, 201 Ga. 838, 845, 41 S.E. 2d 522, 526 (1947); *Martin* v. *Hardy*, 251 Mich. 413, 420, 232 N.W. 197, 199 (1930); *Flack* v. *Domestic L. & A. Ins. Co.*, 232 Ky. 176, 178-9, 22 S.W. 2d 582 (1929); *Commercial Bank* v. *Ten Eyck*, 48 N.Y. 305, 307, 311-2 (1872); *Cleary* v. *Higley*, 154 Misc. 158, 277 N.Y.S. 63, 79 (1934), aff'd 246 App. Div. 698, 284 N.Y.S. 989 (1935); 3 *Fletcher, Corp.* (1965), § 992, p. 533.

Indeed, had this action been brought and tried in November 1958, petitioner would have had to state that *perhaps* the contracting firms would derive profits from their services; that *perhaps* the FPC would exclude these profits from the rate base; and that, *if* these two events should happen, the gas companies would sustain a loss. On the strength of such statements, the court would inevitably have dismissed the action. It would have told petitioner: "Wait until respondents do realize profits. Then wait until the FPC does exclude the profits from the rate base. Perhaps these events will never take place. You cannot sue for damages or profits unless and until they actually arise."

To hold, as did the Court below, that limitations began to run in November 1958 is tantamount to outlawing the claims before they could ever be successfully asserted.

(b) The destructive effect of the decision below is not limited to this particular case. Whenever the insiders of natural gas or electric companies award construction contracts to themselves, a great deal of time is bound to pass before their profits are realized. Much further time must run before the FPC invokes the no-profit rule, before it renders its decision and before the case completes its way through the courts. In the present instance, six years elapsed from the award of the contracts until the FPC actually excluded respondents' profits from Transmission's rate base. Similar delays will occur in similar cases. If the running of limitations were to start at the time of the contract awards—as the Court below held—the judicial remedy would be condemned to futility.

(c) The Court below erroneously held that, as of November 1958, only the "amount" of damages remained to be "computed" or "ascertained" at a later date (pp. 9a, 10a). To the contrary, no damages at all had arisen at the time, and none were certain to arise thereafter. Respondents themselves admit that, as of November 1958, they "stood not only possibly to make a profit, but to the contrary stood to sustain a loss" (p. 22a). The uncertainty thus related not only to the amount, but to the very existence of future profits and damages. Equity will not decree an accounting of damages or profits when none have arisen at the time of suit and trial and when no certainty exists that they will ever arise in the future.

The holding below that respondents' fiduciary breach, committed in November 1958, gave petitioner an immediate right to an accounting of the damages that "would accrue" therefrom in the future (p. 10a) is contrary to Florida and to general law. A fiduciary's breach of trust does not give rise to liability unless and until it results in actual gain to him or actual loss to his cestui; 2 *Scott on Trusts* (2d Ed., 1956), § 205, p. 1523, and authorities cited *supra* p. 14. The two Florida cases cited by the Court (p. 9a)* merely hold that a fiduciary relation gives the right to an accounting in equity; but in both cases the items to be accounted for lay in the past. *Town of Miami Springs* v. *Lawrence,* 102 So. 2d 143 (Fla., 1958), discussed in Judge Rives' dissenting opinion (p. 20a) but ignored by the majority, holds that limitation does not begin to run until "actual harm" is inflicted on the plaintiff, regardless of the date of the defen-

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* *R. O. Holton & Co.* v. *Hull,* 140 Fla. 687, 192 So. 229 (1940); *Royal Indemnity Co.* v. *Knott,* 101 Fla. 1495, 1507, 136 So. 474, 478 (1931).

dant's wrongful act.* An accounting for future damages would be unprecedented and, lacking a crystal ball, impossible.

The Court quotes (p. 4a) the allegation of the complaint that the award of the 1958 contracts to affiliates "exposed Transmission and Florida Gas to the danger that the FPC might eliminate" their profits from the rate base (R. 71). The authorities, however, are clear that the exposure to *potential* injury is not actual injury and does not start the running of limitations. See *Carnes* v. *United States,* 186 F. 2d 648, 650 (Cir. 10, 1951):

> "Though negligence may endanger the person or property of another, no actionable wrong is committed if the danger is averted. It is only the injury to person or property arising from negligence which constitutes * * * an actionable wrong."

The Fifth Circuit itself has held that

> "it is not the wrongful, i.e., the negligent act, which gives rise to the claim. For there must be damage caused by it. Until there is *some* damage, there is no claim and certainly a statute prescribing the time in which suit must be filed (whether as a condition of right or remedy) can never operate prior to the time a suit would be permitted."
>
> *United States* v. *Reid,* 251 F. 2d 691, 694 (Cir. 5, 1958).

We submit that the application of the statute of limitations by the Court below was contrary to any applicable law,

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* Accord: *U.S.* v. *Reid,* 251 F. 2d 691, 694 (Cir. 5, 1958); *Dodd* v. *Pittsburgh, etc. R. Co.,* 127 Ky. 762, 787, 106 S.W. 787, 794 (1908); *Theurer* v. *Condon,* 34 Wash. 2d 448, 209 P. 2d 311 (1949).

deprived Transmission and its public stockholders of any effective remedy for the misconduct of their fiduciaries, and defeated the salutary purposes of the National Gas Act.

3. The importance of review by this Court.

Review by this Court of the decision below is imperative because:

(a) The holding below that petitioner's claims accrued at the time of the contract awards is not based on any peculiarity of Florida law. If sound, it would apply equally under the laws of any of the fifty states. The precedental effect of the decision is thus broad and comprehensive.

(b) The decision below casts a pall on the FPC's administration of the Natural Gas Act and the Federal Power Act. As indicated by the Commission's prevailing and dissenting opinions in this case, the FPC would hesitate to apply the no-profit rule unless the company thus affected has a remedy for its loss against the wrongdoing insiders. Since the decision below effectively precludes such remedy, it jeopardizes the Congressional intent to protect the consumers against excessive rate charges.

(c) The decision below encourages the directors and other affiliates of federally regulated natural gas and electric companies to seek personal gain at the expense of their cestuis. They may award profitable construction and engineering contracts to themselves, sheltered from any accountability for the resulting corporate losses by the umbrella of limitations which the Court below places in their hands.

(d) The effect of the decision below in the present case is to deprive the gas companies' 25,000 stockholders (R 74)

of any redress for the loss of an $8,000,000 investment at the hands of their fiduciaries. The magnitude of the loss and the great number of the victims argue forcefully for review by this Court.

(e) The questions raised by the decision below, affecting a claim rooted in federal law, are novel. They are of vital interest not only to the parties, but to the entire industry. Their resolution is of grave concern to all consumers of natural gas and electricity and to all present and potential investors in the securities of federally regulated utility companies. The questions, we submit, should be reviewed by this Court.

II.

The modification of the District Court's decision by the Court of Appeals so far departs from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's supervisory power.

The District Court dismissed petitioner's profit claim without prejudice as premature. It thus preserved petitioner's right to renew his action after the FPC's decision of the rate base proceeding becomes final. Although only petitioner appealed, the Court of Appeals took away this right by directing that the claim be dismissed with prejudice.

This disposition is in direct conflict with a rule thoroughly established by a long and unbroken line of decisions of this Court and nearly all the Courts of Appeals. In the absence of a cross-appeal, the rule against a *reformatio in pejus* forbids an appellate court to modify the lower

court's decision to the detriment of the appellant. *Letulle* v. *Scofield,* 308 U.S. 415, 422 (1940); *Helvering* v. *Pfeiffer,* 302 U.S. 247, 251 (1937); *Canter* v. *American Insurance Co.,* 3 Pet. 307, 318 (1830); *Tallman* v. *Udall,* 324 F. 2d 411, 417 (Cir. D.C., 1963); *Zelinger* v. *Uvalde Rock Asphalt Co.,* 316 F. 2d 47, 53-54 (Cir. 10, 1963); *Schildhaus* v. *Moe,* 319 F. 2d 587, 588 (Cir. 2, 1963)—all with numerous additional citations. In the words of Mr. Justice Cardozo, "'The rule is inveterate and certain''; *Morley Construction Co.* v. *Maryland Casualty Co.,* 300 U.S. 185, 191 (1937).

By changing a dismissal without prejudice to one with prejudice, the Court of Appeals modified the District Court's decision to petitioner's detriment. This, we submit, it could not do. Judge Rives, dissenting, properly so held (pp. 17a-18a).

Judge Simpson suggested that petitioner is not aggrieved by the change because his profit claim is barred, in any event, by the statute of limitations, so that the added bar of res judicata (arising from the dismissal with prejudice) imposes no further burden (pp. 16a-17a). We respectfully disagree. When the District Court ruled that petitioner's profit claim was premature, it necessarily held that the claim is not barred by limitations. This holding became final since respondents have not appealed from it. As between petitioner and respondents, it constitutes a binding adjudication—conclusive under the rules of estoppel by judgment—that the profit claim will not accrue until the FPC's rate base decision becomes final. If, at that time, petitioner brings a new action on the profit claim, respondents will be estopped from raising the defense of limitations. The Court below lacked the power to relieve them from this disability.

This Court, we submit, should review the error of the Court of Appeals. The decision below, as we have said, is contrary to a rule firmly settled by this Court and the other Courts of Appeals. It constitutes a flagrant departure from the accepted and usual course of judicial procedure.

The rule forbidding a *reformatio in pejus* is an essential part of appellate procedure. Any infraction would hamstring the right to appeal from an adverse decision; for an aggrieved party might well hesitate to seek review at the risk of losing such benefits as he secured in the court of first resort. This Court, we submit, should be on guard against erosion of the rule.

CONCLUSION

For the reasons given, petitioner respectfully prays that the writ be granted.

Respectfully submitted,

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October 8, 1965

APPENDIX A

Opinions of the Court of Appeals

IN THE

UNITED STATES COURT OF APPEALS

FOR THE FIFTH CIRCUIT

No. 21089

FRANK ROSS,

Appellant,

—versus—

F. E. STANLEY, ET AL,

Appellees.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF FLORIDA.

(June 1, 1965)

Before TUTTLE, Chief Judge, RIVES, Circuit Judge, and SIMPSON, District Judge.

TUTTLE, Chief Judge: This is an appeal from an order of the district court dismissing this shareholder's derivative action which the trial court considered to have alleged two separate claims, one for damages and the other for unjust enrichment. The court dismissed the former claim

on the ground that it was barred by the Florida three-year statute of limitations[1] and its dismissed the latter claim on the ground that it was prematurely in Court. Whether or not this conceptual bisection of the complaint is too finical a refinement, it can avail the appellant nothing. Regardless of the number of claims which may have been stated, we hold that the entire lawsuit is barred by the statute of limitations.

The complaint, while long and involved, because of the number of parties and the relationships of the several parties, stated the following relatively simple situation: Ross had been a stockholder of Florida Gas Company (FGC), a Florida corporation, since August 21, 1958. Florida Gas Transmission Company (Transmission), a Delaware corporation, is Florida Gas Company's wholly-owned subsidiary. The two companies and their eight directors individually were joined as defendants with three construction companies and one engineering company, which had performed substantial work in connection with the construction of Transmission's gas pipeline from Texas to Florida. Plans for the construction of Transmission's pipeline began around 1952, with various of the individual and corporate defendants (and the latter's predecessors) in on the early planning. The plan contemplated construction work to be performed by the three defendant construction companies and engineering work by the defendant engineering company. There was to be no competitive bidding on the construction or engineering contracts, but they were to be executed "on terms anal-

[1] Fla. Stat. § 95.11 (5).

ogous to but incorporating a cost no higher than an arm's length contract for similar work under similar circumstances." The persons in control of the defendant contracting companies, it was alleged, were and are still also in control of FGC, Transmission, and their corporate predecessors. Therefore, it was alleged that the contracts in question were subject to the Federal Power Commission's "no profits to affiliates" rule, under which the FPC excludes from a regulated company's rate base the amount of a claimed cost item which represents profits made by an "affiliate." The contracts between the gas companies and their "affiliates" were entered into in November, 1958. It was alleged that these contracts contemplated a substantial profit to the "affiliates" which the defendants knew or ought to have known would be disallowed by the FPC in determining the proper rate base to be used by FGC in fixing the rates for the ultimate sale of its gas. Thus, it was alleged, the defendants knowingly entered into contracts with themselves or their associates which resulted in approximately $10,000,000 of profits to the affiliated group all of which, as they knew or should have known, would be disallowed from the rate base and thus be lost as an asset to Florida Gas Company.

Since the question of accrual depends on the nature of the claim or claims forming the basis of the complaint, we copy the language of the complaint asserting the claim:

> "31. Defendants and the other developers and directors of Transmission and Florida Gas breached their fiduciary duties to Transmission or Florida Gas as follows:

(a) The manner of appointment and the membership of Transmission's negotiating committees . . . were such as to foreclose arm's length negotiation of the contracts between Transmission and the contracting firms.

(b) By reason of the absence of arm's length negotiation of such contracts and by reason of the matters alleged . . . [previously], and during the period referred to . . . [previously], each of the contracting firms was an affiliate of Transmission within the purview of the FPC's 'no profit to affiliates' rule, as defendants and the other developers and directors of Transmission and Florida Gas knew or should have known.

(c) To the knowledge or notice of defendants and the other developers and directors of Transmission and Florida Gas, such affiliation of the contracting firms with Transmission exposed Transmission and Florida Gas to the danger that the FPC might eliminate from Transmission's rate base so much of the cost of the pipeline as reflects the profits of the contracting firms.

(d) Defendants and the other developers and directors of Transmission and Florida Gas could and should have avoided such danger by causing Transmission to award the contracts to firms not affiliated with Transmission, or by awarding the contracts to the contracting firms at cost.

(e) Defendants and the other developers and directors of Transmission and Florida Gas caused Transmission to award the contracts to the contracting firms pursuant to their aforementioned plan and scheme and in order to give the contracting firms an

opportunity to profit, regardless of the foreseeable injury to Transmission and Florida Gas.

(f) By reason of the acts of defendants and the other developers and directors of Transmission and Florida Gas, said companies have been injured or damaged, and may or will suffer further injury and damage, as alleged in paragraph 15, supra.

(g) Each of the contracting firms, including its stockholders, has been unjustly enriched by so much of the payments received by it as constitutes a profit to it.

32. (a) Defendants are jointly and severally liable to Transmission and Florida Gas for the profits realized by each of them and for the damages sustained and to be sustained by Transmission and Florida Gas.

(b) The determination of the amounts of defendants' profits and of the damages sustained and to be sustained by Transmission and Florida Gas requires an accounting by defendants."

The complaint alleged that the staff of the Federal Power Commission had, at the time the complaint was filed, raised the issue but at that time the Commission had not made its determination as to how much, if any, of the profits of these contracting companies were comprehended within the "no profits to affiliates" rule and, therefore, how much, if any, of the alleged profits would ultimately be disallowed. The complaint alleged that this entitled the plaintiff to an accounting for such amounts as were ultimately determined by the Federal Power Commission not to be allowable as part of the "actual legitimate cost" of

the transmission lines[2] under its rule prohibiting the inclusion in the cost of facilities of any "inter-company profits."[3] The complaint ended with the stock assertion that "plaintiff has no adequate remedy at law."

Each of the appellees filed a motion to dismiss the complaint under Rule 12(b)(6), of the Federal Rules of Civil Procedure for failure to state a claim upon which relief could be granted. Some of them also filed specific pleas of limitation by the Florida three-year statute of limitations, and of laches. The court considered that the Rule 12(b)(6) motion sufficiently raised the defense of the statute of limitations as to all appellees. The trial court expressly ruled, and the parties both concede in this Court, that the Florida three-year statute of limitations is available as a defense if it applies under the pleaded facts.

All parties seem to agree that "limitation never commences to run until the time when the plaintiff could first have maintained his action to a successful result." *Brownell* v. *City of St. Petersburg,* 5 Cir., 1942, 128 F. 2d 721, 724. The appellees argue that an action for nominal damages or for rescission of the contract could have been maintained in November, 1958. The appellant denies the possibility of a suit for nominal damages and argues that

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[2] Sec. 6 of the Natural Gas Act, 15 U.S.C.A. § 717(e) provides that "the Commission may investigate and ascertain the actual legitimate cost of the property of every natural gas company, the depreciation therein, and, when found necessary for rate-making purposes, other facts which bear on the determination of such cost or depreciation and the fair value of such property."

[3] For an application of the Commission's rule see St. Croix Falls, Minnesota Improvement Company, et al, Proceedings re Reclassification of Electric Plant Accounts of Public Utilities, 3 F.P.C. 13.

the maintainability of a rescission action is immaterial since that would be a different "claim" from the one presented here. We find no need to resolve this debate, because a careful reading of the complaint reveals that substantially the same complaint, asserting in essence the same claim, or claims, could have been filed by the appellant and maintained "to a successful result" as early as November, 1958.

In the section of his brief arguing that his complaint states a claim upon which relief could be granted, the appellant states that "it would be within the allegations of the complaint . . . to adduce proof of a conversation among all defendants, at which one of them stated, and the others agreed to, these propositions:

> "'We know that the contracting firms are affiliates of Transmission and FGC. We know that their contracts have not been negotiated at arm's length. We know that the payments they will receive from Transmission are likely to yield substantial profits to them. We know that these profits will not be part of the "actual legitimate cost" of Transmission's pipeline properties. We know that the FPC will disallow the profit from Transmission's rate base. We know that this will cause great harm to Transmission and FGC; but we do not care about this injury, because we want the contracting firms to make a profit, according to our original plan and scheme.'"

From this, appellant concludes that "a constructively fraudulent breach by defendants of their fiduciary duties" is alleged. Alternatively, the appellant construes his complaint as charging that the appellees "acted negligently in

awarding the construction and engineering contracts to the contracting firms and thereby caused a loss to Transmission and to FGC."

If these statements accurately describe the gravamen of the appellant's complaint, there is no reason why such a complaint could not have been brought in November, 1958, when the contracts were executed, or within three years thereafter. There is no charge of any concealment on the part of the appellees, and it is clear from the record that no such charge would be justified. Only if some new transaction or occurrence, cited in the complaint and material to the appellant's claim for relief, took place within three years before the filing of the complaint, can it be said that the present action is different from one which first could have been maintained to a successful result in November, 1958. The appellant seeks to supply this more recent element in his brief and oral argument and, somewhat incidentally, in his complaint by making action by the FPC "essential" to his prayer for relief. The part of the appellant's complaint which could not have been included in a complaint filed in November, 1958, in paragraph 15. This alleges that the FPC's staff has recommended elimination of the affiliates profits from Transmission's rate base and that, on June 8, 1962, the FPC approved a stipulation between its staff and the gas companies which "fixed the rates chargeable by Transmission on the basis of eliminating from its rate base those cost items which the staff of the FPC contends should be eliminated . . . without prejudice to the ultimate cost determination to be made by the FPC. . . ."

Because of these allegations, the appellant contends that his claim for damages could not have accrued prior to June 8, 1962.

But the recommendations of the FPC's staff and the approval of the stipulated temporary rate base add nothing of substance to the appellant's basic claim for relief. Even in paragraph 15, the appellant finds it necessary to allege:

> "If the FPC ultimately eliminates from Transmission's rate base all or part of the cost items reflecting the profits of the contracting firms, Transmission's pipeline investment will be lost to the extent of the cost items so eliminated from its rate base, to Transmission's great injury and damage."

This same allegation of impending, and foreseeable, future injuries stemming from the breach of fiduciary duty consummated in November, 1958, goes to the heart of appellant's claim and, like substantially all the rest of the complaint, could have formed part of an action commenced more than three years before the filing of the present suit.

The circumstances alleged to have existed at the time the contracts were executed in November, 1958, unquestionably would have supported a bill in equity for an accounting based on a breach of the fiduciary relationship resulting in injury, the damages from which could not be computed until a later date. Such an action for accounting from allegedly faithless fiduciaries is fully recognized in Florida. *R. O. Holton & Co.* v. *Hull*, 1939, 140 Fla. 687, 192 So. 229. In *Royal Indemnity Co.* v. *Knott, Fla.* 1931, 136 So. 474, 478, the Supreme Court of Florida said "and it may be said generally that whenever there is a fiduci-

ary relation such as that of trustee, agent, executor, etc., the right to an accounting in equity is undoubted. The right in such cases is based upon the substantive equity of trusts which jurisdiction equity always had. 1 Ency. Pl. and Pr. 96." In point of fact, this is precisely the suit that the plaintiff has brought in this case. He stated a case against fiduciaries for an equitable accounting, alleging, presumably because the amount of damages could not be determined until further action by the Federal Power Commission, that there was no adequate remedy at law.

It seems clear upon the statement of the claim, and upon a recognition of the fact that the equitable cause of action is recognized in Florida to meet this precise type of situation, that the plaintiff was fully entitled in November 1958 to bring his bill in equity in the state court, or an action in the federal court to vindicate a State equitable right, seeking exactly the relief that he sought when his suit was filed in 1963. All the breaches of fiduciary duty alleged in the complaint occurred not later than November, 1958. These breaches of fiduciary duty gave rise to the right in the plaintiff to have an accounting made of the damages that would accrue therefrom. The fact that the amount of the damages could not be ascertained until a later date was the very circumstance that required the filing of proceedings of an equitable nature. When the contracts were executed, the claim had fully ripened so as to be the basis of an action. Such action not having been brought for more than three years after it accrued, it was barred by the three-year statute of limitations as determined by the trial court.

Nothing of substance is added by the appellant's contention that he has stated a claim sounding in unjust enrichment, which, he argues, could not accrue until the defendants first received returnable profits. No claim for restitution by fiduciaries in the classical sense, founded upon conflicts of interest, is alleged in this complaint. The complaint views the defendants' profits as "unjust," and therefore returnable to the corporation, only if they are "profits to affiliates" under the FPC rule. The true essence of the appellant's grievance if these profits are, as alleged, subject to the FPC rule, is their exclusion from Transmission's rate base with the consequent damage to the corporation. The profit-making of the defendants can not be separated from the damages to the corporation; they are absolutely equivalent.[4] There is no difference, quantitative or qualitative, between the delay in the advent of damages following the execution of the contracts and the delay in the advent of defendants' profits. If what appellant calls his "damage claim" accrued in November 1958, his "restitution claim" accrued at the same time. That was when the appellant "could first have maintained his action," as spelled out in his present complaint, "to a successful result." *Brownell* v. *City of St. Petersburg, supra.* Looking to "the aggregate of operative facts which give rise to a right enforceable in the courts," *Original Ballet Russe, Ltd.* v. *Ballet Theatre, Inc.*, 2 Cir. 1943, 133 F. 2d 187, 189, we find that the operative facts alleged in this complaint, giving rise to an

[4] If A converts B's property to his own use, there is both damage to B and unjust enrichment to A, but so far as the statute of limitations is concerned, nothing can be made of this separation.

action for an accounting based upon breach of fiduciary duty or unjust enrichment or both, were in existence and would have supported an action for an accounting in November, 1958. The fact that profits, and therefore damages, occurred at various times after that date is as insignificant in fixing the time when the appellant's essential complaint first could have been filed as is the fact that FPC action was not initiated until 1962.

The judgment of the trial court to the extent that it dismissed the claim as being barred by the statute of limitations is AFFIRMED. The judgment of the trial court is REMANDED to permit the remainder of the judgment to be amended in a manner not inconsistent with this opinion.

SIMPSON, District Judge—concurring:

My agreement with the opinion prepared by Chief Judge for the Court is complete and without reservation. Ordinarily, Judge Rives' dissenting opinion—with which, despite its characteristic force and persuasiveness, I disagree on nearly all questions raised—would call for no amplification by me of the views I share with Judge Tuttle. Perhaps here the majority view is so clear as to be better left without attempting embellishment. But, since Judge Rives wrote his dissent after and with a weather eye upon that of Judge Tuttle, and not, as sometimes occurs, after a conference in which all views are exchanged and argued to decision, I feel justified in preempting for the majority the trial lawyer's cherished right to "open and close".

First, I would emphasize that the Complaint here sets forth only one claimed breach of legal duty; only one "claim" or "cause of action", not two; only one basis for recovery. The only duality I can discover is in theories of recovery and computation of damages.

It is sophistry to assert the existence of two claims, one for "breach of trust" and a separate claim for "unjust enrichment", giving rise to an equitable right to an accounting.[1]

As developed on pages 10-12 of Judge Tuttle's opinion and Footnote 4 thereof, the breach of trust, if it occurred,

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[1] Old Florida and Alabama common law pleaders would question the complaint's averment of "no adequate remedy at law" having in mind the catch-all common count in an action of *assumpsit* for "money had and received", which, as the old cases demonstrate, could be based upon concepts of an equitable nature, or arising from equitable considerations. "Money had and received" was held to be broad enough to cover practically any situation developed at trial of the defendant being in possession of money or property rightfully belonging to the plaintiff, and for which money damages was an adequate remedy. This would include such concepts, *inter alia,* as "breach of trust" and typically, "unjust enrichment". *Moss* v. *Condict,* 16 So. 2d 921, 154 Fla. 153; *Sears* v. *Gulf Refining Co.,* 152 So. 1, 113 Fla. 714; *Gordon* v. *Camp,* 2 Fla. 422. Only if he needed discovery and examination of the defendants' records to establish damages, or if money damages would not be adequate relief, (and hence in either event "no adequate remedy at law") would the competent Florida pleader of my salad days have foregone a law action of assumpsit, with attendant jury trial of factual issues, for resort to bill in equity for accounting, usually tried twice, once before a Special Master in Chancery, and again before the Chancellor upon exceptions to the Master's Report.

It is equally clear from old Florida cases that prosecution of either remedy to judgment gave rise to a plea in bar (Law) or complete equitable defense (Chancery) of former judgment or *res judicata* in the event that the parallel remedy was later asserted on the other side of the Court. *Cragin, et al* v. *Ocean & Lake Realty Co.,* 135 So. 795, 101 Fla. 1324 (dictum); See: *Town of Boca Raton* v. *Moore,* 165 So. 279, 122 Fla. 350; *Kent, et al* v. *Sutker,* 40 So. 2 145.

was simply the cause of the claimed unjust enrichment, not a separate and divisible "claim upon which relief may be granted". The attempted division into two claims, or two "causes of action" will not withstand critical analysis.

The district judge had before him Rule 12(b)(6)[2] motions from all defendants addressed to the sufficiency of the Complaint. He concluded, rightly, I think, (and not, as I read Judge Rives' opinion, questioned by him) that the Florida three year Statute of Limitations[3] was applicable, and was proper for the Court to consider in disposing of Rule 12(b)(6) motions, provided the facts pleaded by the Complaint were sufficiently complete to demonstrate the limitation statute's application. He applied the limitation statute to what he, and now Judge Rives, mistakenly, we think, (*supra* and pages 10-12 of the majority opinion) construed as the first (breach of trust) of two separate and distinct claims or causes of action.

Our holding, in summary, is: that only one claim, not two, existed; that all, not part of it, was time-barred under the Florida Statute when suit was brought; and that the district court's attempted dichotomy was impermissible, as without legal or factual basis.

The *judgment* below was brought here on appeal, *not just part of it,* as Judge Rives argues, and the majority opinion simply directs that that judgment, now under our jurisdiction on appeal, be modified below to meet

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[2] Federal Rules of Civil Procedure.

[3] Fla. Stat. Sec. 95.11(5).

these views. Upon remand the suit will stand dismissed with prejudice, not with one portion of an indivisible whole dismissed with prejudice, and the remainder thereof dismissed without prejudice, as the district judge incorrectly attempted.[4]

In the next place, I have no quarrel with the legal and equitable principles discussed by Judge Rives at pages 19 and 20 of the dissent, with respect to the duties and liabilities of fiduciaries and those in privity with them toward a legally wronged or defrauded beneficiary. I accept also, without giving it the significance assigned to it by Judge Rives, the statement that there remains a *locus penitentiae,* that the fiduciary and his privies owe a duty of restitution to the beneficiary.

Of course this is so, otherwise there would never accrue a right of action, the breach of the legal duty to restore gains acquired through breach of trust.

But does this mean that no right of action accrues (and hence no running of time under the limitation statute) until some indefinite time in the future when both an opportunity to restore, and a failure to restore have taken place, as Judge Rives appears to argue? I do not believe so, but rather than once the beneficiary has knowledge,

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[4] As a Florida country boy, I often heard rumors of, but never saw, the mysterious "joint snake", commonly reputed to remain viable as two or more separate and complete snakes if chopped into two or more parts. I am even yet unable to assert with confidence (or competence) that such snakes do not exist. I can truthfully say that one has never come under my direct notice. Careful examination of the Complaint here raises no need for updating or revision of this statement. I still haven't seen a "joint snake".

actual or constructive, of the wrong to him and his purse, actual or potential, great or slight, the inexorable and inescapable time-running process of the limitation statute takes hold. This occurred, according to the Complaint in early November, 1958, more than three years before suit was filed.

Finally, *if* we of the majority have misunderstood and misconceived the nature and legal consequences of the matters set forth in the Complaint, and the appellant Ross does have two separate and severable claims, and *if* the dismissal of one claim without prejudice by the district judge ought of right to stand undisturbed, (as unappealed by the defendants and now final) it should be kept in mind that the *dismissal* of this claim *is* permitted to stand. All that is removed is the "without prejudice" label appended to that dismissal by the district court.

If this provision of the order appealed from were permitted to stand undisturbed, and if our views as to the accrual date (November, 1958) of all claims, or partial claims, or parts of claim, are correct,[5] and we believe they are, and suit was later brought by Ross, the defendants could raise the Florida 3-year limitation statute (Fla. Stat. Sec. 95.11(5), *supra*) as a bar to recovery. The *bar would be complete.* What and all that is accomplished by

[5] Judge Rives' opinion does not follow the district court's conclusion that the two asserted claims accrued and will accrue at different times, i.e., one (breach of trust) now time-barred, one (unjust enrichment) now prematurely asserted. He (Judge Rives) argues only that both will accrue in the future, but presumably at the same time, "the conclusion of the Federal Power Commission's decision and its review by the courts". (Conclusion, page 21, dissent.)

the present majority direction to the lower court is to afford the defendants (in a later suit) an additional plea in bar, *former judgment.*

Two bars accomplish no more than one, so that the jurisdictional argument is practically no more than an interesting intellectual exercise.[6]

With deference to and high respect for the views of Judge Rives, I am constrained, after reconsideration of the majority opinion in the light of Judge Rives' opinion, to concur in Judge Tuttle's opinion for the reasons lucidly set out by him and further upon the basis of the additional or amplified reasons here attempted to be developed.

RIVES, Circuit Judge, dissenting:

With deference, I dissent.

The district court held that the claim for damages resulting from a breach of fiduciary duty is barred by the statute of limitations and that the claim for unjust enrichment is premature. Accordingly it dismissed the action but expressly made the dismissal "without prejudice to the right of the plaintiff to bring a further action for relief for restitution and unjust enrichment at such time as an order of the Federal Power Commission in the pending rate base proceeding becomes final."

The plaintiff alone filed a notice of appeal. None of the defendants appealed. Now this Court holds that both claims

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[6] If we accept Gertrude Stein's assertion that "a rose is a rose is a rose" it seems to me equally correct in this context to proclaim that "a bar is a bar is a bar".

were barred by the statute of limitations and that the entire action should have been dismissed with prejudice.

On their claimed defense of the statute of limitations addressed to the claim of unjust enrichment, the district court ruled against the defendants. The defendants having failed to appeal, I submit that they can no more rely on the statute of limitations as to the claim of unjust enrichment than if they had failed to plead that defense in the first instance. To the extent that the judgment was adverse to the defendants it became final without appeal, and this Court is without jurisdiction to enlarge the rights of the defendants.[1]

Laying aside the jurisdictional question, I submit that neither claim is barred by the statute of limitations. Florida Gas Company (F.G.C.) and Florida Gas Transmission Company (Transmission) held no claim upon which relief could be granted as early as November 1958 when the contracts were executed. Those contracts did no more than expose F.G.C. and Transmission to the risk of injury conditioned on the occurrence of two subsequent events: (1) The receipt of profits by the contracting firms; and (2) the elimination by the Federal Power Commission of those profits from Transmission's rate base. Unless and

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[1] The William Bagaley, 1866, 72 U.S. 377, 412; United States v. American Ry. Express Co., 1924, 265 U.S. 425, 435; Morley Co. v. Maryland Casualty Co., 1937, 300 U.S. 185, 191; Helvering v. Pfeiffer, 1937, 302 U.S. 247, 251; Le Tulle v. Scofield, 1940, 308 U.S. 415, 422; Southern Bell Telephone Co. v. Southern Precision Pattern Works, 5 Cir. 1958, 251 F. 2d 537, 540; Abel v. Brayton Flying Service, 5 Cir. 1957, 248 F. 2d 713, 717; Schildhaus v. Moe, 2 Cir. 1963, 319 F. 2d 587, 588; Zellinger v. Uvalde Rock Asphalt Co., 10 Cir. 1963, 316 F. 2d 47, 54; 7 Moore, Federal Practice ¶72.05 (2d ed. 1953).

until profits accrued to the contracting firms, the defendants' breach of duty to the plaintiff was not complete for only profits could be eliminated from the rate base. The contracts contemplated reasonable profits to the contracting firms, but, as of the dates of the contracts, the actual receipt of the hoped for profits was speculative and uncertain. Assuming, however, that to be untrue and that the contemplated profits were so large as to make their receipt virtually a certainty, there remained a locus poenitentiae.

A fiduciary and third persons colluding with a fiduciary who obtain a benefit from a breach of the fiduciary's duty are under a duty of restitution to the beneficiary.[2] It could not be presumed in advance that the defendants would breach that duty so as to make the claims complete as of the dates of the contracts.

Further, profits, even when received and retained by the contracting firms, did not give rise to a claim on which relief could be granted until the Federal Power Commission actually began to eliminate those profits from Transmission's rate base. Until that event it could not be known with any degree of certainty that the receipt of reasonable profits by the contracting firms was unjust or wrongful, or that the defendants had committed any legal injury to F.G.C. and Transmission.

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[2] Jackson v. Smith, 1921, 254 U.S. 586, 588, 589; Flight Equipment & Engineering Corp. v. Shelton, Fla. 1958, 103 So. 2d 615, 625; A.L.I. Restatement, Restitution §§ 138, 190. Indeed, a broader principle not restricted to fiduciaries and those colluding with them might be applicable, to the effect that "A person is not permitted to profit by his own wrong at the expense of another." A.L.I. Restatement, Restitution § 3, §§ 128-137; see also Prosser on Torts, §82, p. 486 (2d ed. 1955).

The situation is analogous to *Town of Miami Springs* v. *Lawrence,* Fla. 1958, 102 S.2d 143, where the action was based on the fact that the town raised the level of a street and failed to provide drainage for the plaintiff's land. In denying the defense of limitations, the Florida Supreme Court held:

> "... the statute does not begin to run until actual harm is inflicted to the plaintiff's land, regardless of the installation date of the construction or obstruction causing the overflow. See 56 Am.Jur., Waters, §444; Baker v. Fort Worth, 1948, 146 Tex. 600, 210 S.W.2d 564, 5 A.L.R.2d 297; Henderson v. Talbott, 1954, 175 Kan. 615, 266 P.2d 273; annotation in 5 A.L.R.2d pp. 302 et seq."

See also *Duchaine* v. *Grosco Realty Co.,* Fla.App. 1960, 121 So.2d 679.

With deference, I submit that neither claim is barred by the statute of limitations. I submit, further, that neither claim should be dismissed as premature, but rather that a stay should be directed pending the conclusion of the Federal Power Commission's decision and its review by the courts.[3]

For the reasons stated, I respectfully dissent.

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[3] See Best v. Humboldt Placer Mining Co., 1963, 371 U.S. 334, 338-9; Hewitt-Robins v. Eastern Freight-Ways, 1962, 371 U.S. 84; Thompson v. Texas Mexican R. Co., 1946, 328 U.S. 134, 151; General Amer. T. Car Corp. v. El Dorado Term. Co., 1940, 308 U.S. 422, 433; United States v. Morgan, 1939, 307 U.S. 183, 198; Mitchell Coal & C. Co. v. Pennsylvania R. Co., 1913, 230 U.S. 247, 266-7; McCleneghan v. Union Stock Yards Co., 8 Cir. 1962, 298 F. 2d 659, 670.

APPENDIX B

Petition for Rehearing

IN THE

UNITED STATES COURT OF APPEALS

FOR THE FIFTH CIRCUIT

No. 21,089

FRANK ROSS,

Appellant.

—versus—

F. E. STANLEY, et al.,

Appellees.

PLAINTIFF-APPELLANT'S PETITION FOR REHEARING AND REHEARING EN BANC

To the Honorable the Chief Judge and the Judges of the United States Court of Appeals for the Fifth Circuit:

Plaintiff-appellant Ross applies (1) for a rehearing of his appeal and of the Court's decision of June 1, 1965; and he moves (2) that such rehearing be held en banc (Rules 25a and 29 of this Court).

The following is a brief statement, without argument, of the grounds for rehearing and of the reasons for directing it to be held en banc. The arguments in support of the application are set forth in the annexed brief.

Appendix B—Petition for Rehearing

I. Grounds for rehearing.

Plaintiff-appellant respectfully submits:

1. The Court erred in holding (Op. 2, 12, 17) that this action and the claims alleged therein are barred by the statute of limitations.

2. The Court erred in holding (Op. 7, 12) that this action could have been maintained "to a successful result" as early as November 1958.

3. The Court overlooked the express admission of defendants-appellees* that, in November 1958, it was wholly uncertain whether there would ever be any profits for defendants (and, hence, any damages to the gas companies).

4. The Court held correctly that "The true essence of appellant's grievance * * * is [the] exclusion [of defendants' profits] from Transmission's rate base with the consequent damage to the corporation" (Op. 11). This holding is inconsistent with the Court's conclusion that plaintiff's claim accrued at a time (November 1958) when the facts constituting its "true essence" had not yet materialized because defendants' profits had not come into existence, let alone had been excluded from the rate base.

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* "Whether the contracting firms 'would profit' * * * was 'speculative and uncertain,' not a fact on which a cause of action can be based. Indeed, the contracting firms when agreeing for a firm price to render the services stood not only possibly to make a profit, but to the contrary stood to sustain a loss."

(P. 66 of the main brief for defendants-appellees F. E. Stanley et al.)

5. The Court overlooked that, for purposes of the administrative no-profit-to-affiliates rule, only the FPC can make a finding of "affiliation". Such a finding, essential to this action, did not exist and could not have been procured in November 1958.

6. The Court (Simpson, J.) erred in holding (Op. 16) that not only an actual but also a "potential" wrong can start the running of limitations.

7. The Court held (Op. 8-9) that, if plaintiff had a claim in 1962, when the action was brought, he must have had a claim in 1958, because no material facts intervened. The Court overlooked a material intervening change: Profits actually accrued to defendants. Because of these profits, Transmission was forced actually to reduce its rates, thus suffering actual damage.

8. On Chief Judge Tuttle's premise that this is a purely equitable action for an accounting (Op. 10), the Court erred in applying the Florida statute of limitations instead of the doctrine of laches.

9. On Judge Simpson's premise that the remedy at law for money had and received was adequate (Op. 13, fn. 1), the Court erred in holding that the claim for defendants' profits accrued in November 1958, long before any profits were actually "had and received" by defendants.

10. On Judge Simpson's premise that the running of limitations begins "once the beneficiary has knowledge, actual or constructive, of the wrong to him and his purse" (Op.

16), the Court erred in holding, by necessary implication, that such knowledge existed in November 1958.

11. The Court's holding that limitations began to run at a time (November 1958) when actually this action could not have been brought and maintained to a successful result, deprives plaintiff and the gas companies, on whose behalf this action is brought, of their property without due process of law, contrary to the Fourteenth Amendment of the Constitution of the United States.

12. The Court erred, and acted without jurisdiction, in dismissing plaintiff's profit claim with prejudice, when the District Court had dismissed it without prejudice and defendants did not appeal from the District Court's decision or any part of it.

II. Reasons for rehearing en banc.

Rehearing en banc should be directed becaused unusually important and novel questions are to be decided and because it is necessary in order to maintain uniformity in the decisions of the Court.

1. The Court's decision affects not only this plaintiff, his 25,000 co-stockholders and their $8,000,000 claim, but a multitude of other utility corporations throughout the land, which are subject to FPC regulation and are exposed to fiduciary abuses similar to those charged in this action.

2. The novel and unprecedented effect of the Court's decision will be to compel public utilities stockholders to

swamp the courts of the land with actions based on nothing better than a speculative guess that their corporations *may* suffer injury and damages in the indefinite future.

3. Alternatively, the novel and unprecedented effect of the Court's decision will be the destruction of the claims of those public utilities stockholders who refrain from going to court until their corporations actually sustain injury and damages.

4. The Court's decision departs from this Court's holding in *United States* v. *Reid,* 251 F. 2d 691, 694 (Cir. 5, 1958), that a wrongful act does not give rise to a cause of action, and does not start the running of limitations, until *some* damage actually results.

5. The four Judges here and below have written four sharply divergent opinions. In this Court, the case did not have the benefit of a judicial "conference in which all views are exchanged and argued to decision" (Op. 13). The two active Judges of this Court, who participated in the decision, were evenly divided.

A more detailed argument in support of a rehearing en banc is presented in the annexed brief.

The undersigned counsel hereby certifies that the foregoing petition is presented in good faith and not for delay.

WHEREFORE, petitioner respectfully prays for a rehearing, moves that such rehearing be held en banc, and asks for such other relief as may be just.

Appendix B—Petition for Rehearing

Dated: June 18, 1965.

Respectfully submitted,

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APPENDIX C

Order of the Court of Appeals Denying Petition for Rehearing

IN THE

UNITED STATES COURT OF APPEALS

FOR THE FIFTH CIRCUIT

No. 21089

FRANK ROSS,

Appellant,

—versus—

F. E. STANLEY, et al.,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF FLORIDA

(July 13, 1965)

ON PETITION FOR REHEARING

Before TUTTLE, Chief Judge, RIVES, Circuit Judge, and SIMPSON, Distirct Judge:

Per Curiam:

It is ORDERED that the petition for rehearing filed in the above styled and numbered cause be, and the same is, hereby denied.

RIVES, Circuit Judge, I dissent.

APPENDIX D

Statutes Involved

§ 2 of the Natural Gas Act, 15 USC § 717a

§ 717a. *Definitions*

When used in this chapter, unless the context otherwise requires—

* * * * *

(6) "Natural-gas company" means a person engaged in the transportation of natural gas in interstate commerce, or the sale in interstate commerce of such gas for resale.

* * * * *

§ 6 of the Natural Gas Act, 15 USC § 717e

§ 717e. *Ascertainment of cost of property*

(a) The Commisison may investigate and ascertain the actual legitimate cost of the property of every natural-gas company, the depreciation therein, and, when found necessary for rate-making purposes, other facts which bear on the determination of such cost or depreciation and the fair value of such property.

* * * * *

§ 208 of the Federal Power Act, 16 USC § 824g

§ 824g. *Ascertainment of cost of property and depreciation*

(a) The Commission may investigate and ascertain the actual legitimate cost of the property of every public

utility, the depreciation therein, and, when found necessary for rate-making purposes, other facts which bear on the determination of such cost or depreciation, and the fair value of such property.

* * * * *

§ 95.11(5) OF THE FLORIDA STATUTES

Actions other than those for the recovery of real property can only be commenced as follows:

* * * * *

(5) Within three years—

* * * * *

(c) An action for taking, detaining or injuring any goods or chattels, including actions for the specific recovery of personal property;

* * * * *

(e) And an action upon a contract, obligation or liability not founded upon an instrument of writing, including an action for goods, wares and merchandise sold and delivered and on store accounts.

APPENDIX E

Opinion No. 431 of Federal Power Commission

UNITED STATES OF AMERICA

FEDERAL POWER COMMISSION

Before Commissioners: JOSEPH C. SWIDLER, Chairman, L. J. O'CONNOR, JR., CHARLES R. ROSS, HAROLD C. WOODWARD, and DAVID S. BLACK.

Docket No. RP61-3

Docket No. RP61-4

FLORIDA GAS TRANSMISSION COMPANY

COASTAL TRANSMISSION CORPORATION

Opinion No. 431

OPINION AND ORDER ON ACCOUNTING FOR CONSTRUCTION PROFITS AND CONSOLIDATED TAX, ADOPTING EXAMINER'S DECISION WITH MODIFICATION

(Issued June 8, 1964)

SWIDLER, Chairman:

This proceeding concerns (1) the proper accounting for Florida Gas Transmission Company's pipeline construction costs representing profits of allegedly affiliated en-

gineering and construction companies and (2) the accrual of Federal incomes taxes on the books of Coastal Transmission Corporation. These issues were reserved in the Commission's order of June 8, 1962 (27 FPC 1123), accepting a proposed settlement of rate proceedings.

The corporations here involved were organized to transport natural gas from Texas to Florida. Houston Texas Gas and Oil Corporation (Houston Texas) and Coastal were granted a certificate for the pipeline by Opinion No. 301 (16 FPC 118) issued December 28, 1956,[1] and have completed the construction. Since that time the companies have merged and are now known as Florida Gas Transmission Company; and the name of their parent, The Houston Corporation, has been changed to Florida Gas Company.

On the first question there is an issue as to whether there was an affiliation between Houston Texas and the engineering and construction firms, and, if so, whether that part of the pipeline costs representing profits to these firms should be eliminated from the company's plant accounts. There is also a subsidiary question as to whether the profits should not be reduced by certain overhead costs of the construction firms. On the second question the issue is whether Coastal should be able to accrue a tax although it was included in a consolidated income tax return on which no taxes were payable.

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[1] Affirmed as *Florida Economic Advisory Council* v. *F.P.C.*, 251 F. 2d 643 (CADC), certiorari denied 356 U.S. 959.

Appendix E—Opinion No. 431 of Federal Power Commission

I. The Costs Resulting from Profits of the Construction and Engineering Group

As a result of the Commission's order of June 8, 1962, a hearing was held in which it was developed that total cash outlays for the pipeline amounted to $112,439,325 for Houston Texas and $60,091,410 for Coastal, and these were recorded in the plant accounts of the companies. A part of the amount spent by Houston Texas was paid to four engineering and construction firms, Barnard & Burk, Midwestern Constructors, Inc., Walco Engineering and Construction Co., and Harbert Construction Corporation. The staff found that the total payments to these firms included $9,659,183 in excess of their actual costs.[2] The staff recommended that this amount with corresponding interest during construction of $304,950, amounting in all to $9,964,133, should be eliminated from the plant accounts. On the basis of the record the examiner found in his decision dated September 23, 1963, that the firms became part of an affiliated group in the promotion of Houston Texas and that the construction profit should be eliminated from its plant accounts. We agree with the examiner's conclusion but modify it below with respect to overhead costs of the construction firms.

The question of affiliation must be determined on the basis of the entire history of the pipeline and of the corporations involved. Originally, for the purpose of building

[2] $5,919,065 applicable to the joint venture composed of Midwestern and Walco; $3,082,810 applicable to Harbert and $657,306 applicable to Barnard & Burk.

a pipeline to New York or Chicago a Texas corporation known as Houston Texas Gas and Oil Company (Houston Texas Company) was organized May 12, 1952, by one J. O. Mack, a successful oil producer, and he was joined by his wife, H. S. Mack, and his son-in-law, A. R. Kleinkauf. Later O. Paul Herzig became chief engineer and a director, and F. R. Smith became associated with the enterprise. The capital structure of this company consisted of 1,000 shares at a par value of $1.00 per share, and this was never increased. Because Mr. Mack did not have available the necessary financial resources or experienced personnel he made efforts to interest other firms in the project.

Mr. Charles C. Barnard was the first such investor to join the group. Mr. Barnard, who met Mr. Mack on his own initiative early in 1954, was a partner in the consulting engineering firm of Barnard & Burk. After a series of conversations it was orally agreed that Barnard & Burk would prepare a survey of the Florida market at their expense, that they would be reimbursed for costs when funds were available, that they would do the engineering for the project at the going fee for the type of work involved, and that out of cash or services they would be permitted to purchase a certain amount of founders' stock.

Later Mr. John M. Harbert, president of Harbert Construction Corporation, Mr. Paul C. Wallack, president of Walco, and Mr. F. E. Stanley, president of Midwestern Constructors, Inc., also heard about Mr. Mack's plans, met Mr. Mack and eventually joined the enterprise. Through oral agreements with Mr. Mack each of these individuals

agreed to advance risk capital and to contribute their knowledge and experience; in turn they were to be given the right to construct a portion of the pipeline and to acquire stock participation in the project.

On July 22, 1954, Houston Texas was incorporated in Delaware for the purpose of acquiring the assets of Houston Texas Company and constructing a natural gas pipeline, and Mr. and Mrs. Mack and Mr. Kleinkauf became the first directors. Later Mr. Mack's associates Herzig and Smith became directors and numerous meetings were held at which plans for constructing the project were developed. By September 16, 1954, Messrs. Harbert, Wallack and Stanley were advancing small amounts of risk capital, and on October 27, 1954, along with Mr. James Roddy of the financial firm of Scharff and Jones in New Orleans and Mr. Barnard, met with officials by Blyth & Company in New York to work out arrangements for that firm to act as underwriters and investment advisers for the project.

On December 8, 1954, the board of directors of the new company approved the oral agreements that Mr. Mack had made, now reduced to writing in the form of stock subscription agreements with respect to providing funds, and in the form of letter agreements with respect to the performance of the work. The board then consisted of Mr. Mack, Mrs. Mack, and Messrs. Kleinkauf, Herzig, and Smith. The board also approved the acquisition of the assets of The Houston Texas Company. After this and at the same meeting it voted to increase its membership to include Messrs. Barnard, Harbert, Wallack, and Stanley, and Mr. Stanley

was elected Chairman. Mr. T. Rinehart, Mr. Stanley's legal counsel, was appointed general counsel and was granted an option to purchase stock. On the same day Midwestern and Walco, Harbert, and Barnard & Burk subscribed in all to 37.5 percent of the stock in Houston Texas.

The letter agreement with Barnard & Burk provided that if Houston Texas acquired a certificate it agreed to employ Barnard & Burk as engineers under a contract "incorporating a cost or fees no higher than an arm's length contract for similar services under similar circumstances." The agreement specifically provided that "the amount of the fees and compensation set forth herein are not, and shall not be deemed to have been, agreed to at this time." Attached to the letter agreement, which was accepted by Barnard, was a form of contract to be executed later.

The letter agreements with Harbert Construction Corporation, and with Midwestern and Walco acting jointly, both provided for a "cost no higher than an arm's-length contract for similar work under similar circumstances." In the Harbert agreement Houston Texas agreed to employ the firm to construct the 18-inch main line from Haines City, Florida, to Miami, Florida, including all laterals. In the Midwestern-Walco agreement Houston Texas agreed to employ the firm to construct all main line facilities from a point near Bay St. Louis, Mississippi, to Haines City, Florida.

In February of 1955 Houston Texas made arrangements to obtain a gas supply from Coastal, then a wholly owned subsidiary of Delhi-Taylor Oil Corporation, and it became

necessary for the investors in Houston Texas to divest themselves of part of their interest to permit Delhi-Taylor to purchase an interest. On August 26, 1955, Houston Texas filed its application with the Commission for a certificate. At the time the application was heard the Houston Texas stock was owned as follows: Barnard & Burk, 10.2 percent; Harbert, 5.1 percent; Midwestern group, 9.6 percent; Walco group, 10.0 percent; Mack group, 35.7 percent; Delhi-Taylor, 14.3 percent; investment bankers, 11.4 percent, and others, 3.7 percent. The board of directors then was composed of Barnard, Bashore (vice president of Blyth and Co.), Harbert, Herzig, Kleinkauf, Rinehart, Roddy, Stanley, Wallack, and Mrs. Mack.

In March 1957 The Houston Corporation was formed, and all stockholders of Houston Texas exchanged their stock for shares in The Houston Corporation of which Houston Texas was now the 100 percent subsidiary. In June 1958 The Houston Corporation obtained by exchange of stock all of the stock of Coastal, and Delhi-Taylor became owner of 48.3 percent of the stock of The Houston Corporation.[3] Changes were also made in the board of The Houston Corporation which thereafter consisted of W. J. Bowen, president of Coastal; Harold A. Martin, vice president of a bank in Jacksonville, Florida; Carl M. Mueller, vice president, Bankers Trust Company, New York City; Leon M. Payne, a Houston lawyer; Rinehart; Barnard; and Stanley, who was Chairman of the Board

[3] Delhi Taylor's ownership consists only of Class A stock which had one-tenth of a vote per share until 30 days after the public financing in August of 1958 when it had one-fourth of a vote per share.

and president. At the same time the board of Houston Texas was revised to consist of Bowen, Herzig, Kleinkauf, Payne, Rinehart, Stanley, and Mrs. Mack.

In August of 1958 The Houston Corporation carried out the necessary public financing. Definitive contracts containing prices at which the work was to be performed were negotiated and were approved by the board of Houston Texas on October 23, 1958.[4] At that time the composition of the boards of directors of The Houston Corporation and Houston Texas were the same as those listed above for June of 1958. The testimony shows that regardless of their legal import, all of the new directors of The Houston Corporation and Houston Texas assumed that the letter agreements were to be honored as at least a "moral obligation," and no consideration was ever given to adopting a different mode for determining who would do the work involved.

At this time in addition to being a director of each company, Mr. Stanley was chairman of the board and president of The Houston Corporation and president of Houston Texas. The maximum percentages of stock owned by the engineering and construction representatives in The Houston Corporation at any time subsequent to the public financing up until December 1960 were as follows: Mr. Barnard, 0.9 percent; Mr. Harbert, 3.3 percent; Mr. and Mrs. Stanley, 2.4 percent, and Mr. and Mrs. Wallack, 3.0 percent, or 9.6 percent in all. Because of the large offering of common stock to the public (1,809,400 shares or 52%)

[4] The contracts had been previously submitted to the board of The Houston Corporation and in effect approved.

the shares held by the engineering and construction representatives are not insignificant.

While the relative stock interest of the engineering and construction group in the pipeline enterprise declined in the period between the approval of the letter agreements in December 1954 and the ratification of the definitive contracts in October 1958, the influence on company policy exerted by the original group of promoters persisted. After the execution of the letter agreements the record shows that Messrs. Stanley, Wallack, Harbert, and Barnard devoted a great deal of time and effort to the problems of getting the pipeline built and the enterprise established on a business basis. Their entrenched position is shown by the fact that several inquiries by other firms about constructing the pipeline or performing engineering services were answered by the statement that the work had already been awarded to the four firms involved here. Even the negotiation of definitive contracts could not be separated from the same group. At the meeting of the board of directors of Houston Texas on March 19, 1957, the president, Mr. Stanley, appointed separate committees to negotiate contracts with Barnard & Burk and the three construction companies. Mr. Stanley appointed Messrs. Herzig and Rinehart and himself to deal with Barnard & Burk,[5] and Messrs. Herzig, Barnard and Rinehart to deal with the construc-

[5] The agreement with Barnard & Burk was never brought to a definitive contract, but the record shows that the parties acted within the terms of the appendix to the letter agreement. Under these terms Barnard & Burk would receive a percentage of the pipeline costs, but this was limited later by oral agreement. Competitive bids were not sought from other firms.

tion companies. Thus members of both committees were on the same board of directors, had common interests [6] and were appointed by the president who was a representative of one of the construction contractors. Mr. Stanley testified, that "the persons negotiating the Midwestern-Walco contracts were under strict and absolute instructions to negotiate those contracts in accordance with the provisions of the letter agreements." All of the work was offered to the construction firms and awarded to them except for certain river crossings, laterals, and meter and regulator stations for which the committee thought the proposals of the construction firms were too high after checking with other contractors.

The evolution of this enterprise, which must be traced through the complicated details of stock ownership, agreements, financial needs and personal relationships, is plain enough in general pattern. A group of promoters combined their talents and resources, and representatives of the engineering and construction firms were members of this original group. As the enterprise expanded other persons and other resources were brought in, but representatives of the engineering and construction firms remained at the center of the operation where they were in a position to protect their rights to perform the services, the cost of which is involved here.

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[6] While Rinehart, who owned 9.8% of the common stock of The Houston Corporation before the public offering, was not personally interested in the construction contractors, he was or had been Mr. Stanley's lawyer and had been brought into the company through Stanley.

Appendix E—Opinion No. 431 of Federal Power Commission

There may never have been any formal agreement between the members of the engineering and construction group and the Mack interests to control jointly the several companies through which they operated. However, it is clear that the Mack group was dependent upon the construction and engineering group and could not have repudiated the oral agreements with the construction and engineering group (or its individual members) when on December 8, 1954, the Mack interests had Houston Texas (in which they momentarily owned all the stock and made up the entire board of directors) approve the agreements in written form. Absent the participation by the construction and engineering group which was consummated immediately thereafter Houston Texas was a mere shell.

By no sensible interpretation can the transactions of December 8, 1954, properly be characterized as an arm's-length bargain between a controlling Mack group and a minority construction and engineering group. They were, instead, a series of agreements between a corporation and contractors who were an integral and essential element of the corporate management, and who could destroy the corporation unless it agreed to their prearranged transactions. We hold that as of the time the construction and engineering group occupied a position where they were able to control the actions of the company in the awarding of construction and engineering contracts, that they exercised this control in favor of their own firms, and that the contracts in issue reflect this relationship.

It is arguable that during the subsequent four years the construction and engineering group lost the absolute power

to impress their will upon the pipeline company, parent or subsidiary. It is unquestionable, however, that throughout this period the group or its representatives remained as active participants in the company management, and that the new members of the board of directors of the parent company made no effort to reconsider the 1954 determinations but treated them as binding. Under these circumstances we do not believe that it can properly be concluded that the original affiliation taint has been purged, or that the October 1958 ratification of the earlier agreement represented an independent judgment by the parent company to employ the construction and engineering group because they could perform the work as well and as cheaply as any other group.[7]

We think that our rule against profits to affiliates precludes allowing their profits in the plant accounts of Houston Texas. The no-profits-to-affiliates rule goes far back in Commission history. See for example *Alabama Power Co.*, 1 FPC 25, 39, aff'd *Alabama Power Co.* v. *McNinch*, 94 F. 2d 601 (CADC 1937); *Louisville Hydro-Electric Company*, 1 FPC 130, 133, aff'd *Louisville Gas & Electric Co.* v. *F.P.C.*, 129 F. 2d 126 (CA6 1942), cert. den. 318 U.S. 761. The basis of this rule is that a profit made by an enterprise dealing with itself does not represent cost. As we indicated in *St. Croix Falls Minnesota Improvement Company, et al.*, 3 FPC 13, 21, it is "impossible and unrealistic to determine whether profits paid to an

[7] We do not hold that an affiliation condition which would call for application of the rule can never be eliminated once created, but only that it was not here.

affiliated construction company are 'reasonable profits' " and "comparison [with] over-all cost, including the affiliated company's profit, with what might have been cost if actual competition for the work had existed and if the work had been done by a non-affiliated construction company is sheer speculation."[8]

To prevent the evils which have been the subject of past proceedings the rule against profits to affiliates must be sufficiently broad to cover fact as well as form. The dissent suggests the rule should apply only where there is a situation of complete control and, further, complete control at the point in time when the formal contracts were executed on October 23, 1958. We do not agree. The purpose of the rule is to prevent insiders taking advantage of their position and creating costs which are not subject to the check of ordinary business relationships. *CF.*, Section 10 of the Clayton Act, 15 U.S.C. § 20.[9] We do not think that some particular percentage of stock or of common officers or directors can be allowed to be determinative of whether the rule should apply, although these factors are relevant

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[8] In the *St. Croix* case the Commission by way of footnote indicated that it was using the term "affiliated company" there in the sense of the definition of this term in our Uniform System of Accounts. For the reasons set forth in this opinion we do not believe there is any basis for limiting the so-called "no-profits-to-affiliates" rule to such situations.

[9] This section makes it a crime for any common carrier to make any contracts for construction in an amount more than $50,000 with another firm when the carrier shall have upon its board of directors or as its president, manager, or purchasing officer any person who is at the same time a director or manager or who has a substantial interest in the firm, except under competitive bidding.

to determine when a relationship exists that calls for application of the exclusionary rule. That the contractors or promoters could not have dictated policies or ordered the execution of contracts if all other interests had chosen to oppose them cannot validate a relationship which by its very nature and history precludes unhampered bargaining, especially if the contractors or promoters were, as here, clearly dominant when the original contracts were agreed upon. If control exists, sufficient to dominate the execution of the contracts in the face of united opposition, that makes the rule automatically applicable; but our inquiry is not at an end if we conclude that the insider's influence resulting in the contract is or became somewhat less than this degree of control.

The dissenting opinion, citing *Florida Power Corp.*, 1 FPC 390 (1937), argues that affiliation must be determined solely with reference to the situation prevailing as of the date the formal employment contracts were executed, and that indicia of control or influence at earlier periods are irrelevant. The *Florida Power* case, however, presented a situation where there never were any dealings between company insiders and construction or engineering firms under their control: the employment contracts in issue resulted from the arm's-length bargaining between the original promoters of a company and a completely unrelated concern, which as part of the consideration for purchasing the promoters' stock agreed to employ them subsequently to build the project involved. It was this fact, rather than the corporate situation when the employment agreements

were subsequently ratified (by which time the original promoters had long since ceased to have any relationship to the company), which led the Commission to allow reasonable profits on the work done. If the rule requiring disallowance of profits to affiliates could be circumvented by the resignation of the insider (or his sale of stock) after he enters into an employment agreement, but prior to its being converted into a formal contract, it would be seriously weakened as an effective sanction against such activities.

We also need not consider whether, as the dissent suggests, there may be other situations involving less than arm's-length bargaining in which the public interest can be adequately protected by approaches not calling for exclusion of a supplier's or contractor's profits from company costs. The rule that profits from contracts of a supplier or contractor affiliated with the regulated company should be excluded from its cost of service has proved its worth and is fully applicable here upon any realistic test of what occurred.

It has been suggested by the dissent that the effect of our decision here will discourage the promotion of pipeline projects by promoters pooling their interests. Of course, we have no such intention. We do not object to promoters making a profit on their investment of time, effort and financial resources in a developing pipeline enterprise. They will presumably realize this profit on the enhanced value of the shares of stock distributed to them. What we do object to is the engineering and contracting promoters profiting a second time on contracts between themselves

and the organization they are promoting at the expense of the gas consumers.

Houston Texas points out that full disclosure of the relation of the pipeline enterprise with the engineering and construction companies was made in the certificate proceeding and that the Commission's opinion shows that the engineering and construction costs would be allowed if reasonable. Houston Texas also contends that the examiner erred in refusing to admit and consider evidence of their reasonableness. The arguments rest on the following language of the Commission in its certificate opinion (16 FPC at p. 142):

> "Finally, it appears that the labor necessary for construction of the facilities of Houston Gas will be furnished by three construction companies, the president of each of which is an official and director of Houston Gas and that two of these construction companies own blocks of Houston Gas stock. Furthermore, a member of the firm of engineers which will supervise the construction and operation of the pipeline is also a vice president and director of Houston Gas. While as we have already stated, the cost of the proposed facilities appears to be reasonable, in view of this fact, this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates of Houston Gas."

We agree with the examiner that Houston Texas misconstrues the purpose of the language in the certificate opinion. There the Commission was making a determination on the feasibility of the project. In its opinion the cost

appeared to be reasonable from this standpoint, but it specifically deferred consideration of the costs in relation to the affiliation question. On its face the language is a warning that because of the affiliation problem contract costs would not be accepted at face value but would be subject to scrutiny. We do not see how it can be converted into assurance that the contract prices would be accepted. If they are not accepted because of affiliation, there can be only one course, disallowance of insider profits.

Houston Texas' interpretation assumes that the Commission would abandon its long-standing rule against profits between affiliates with no discussion or consideration. Such an interpretation does not seem warranted, and it is therefore not relevant to inquire into the reasonableness of the profits. There is no reason in the record to doubt that the engineering and construction costs, apart from the profits, were reasonable.

In computing the profit arising from the engineering and construction contracts the staff did not include certain costs representing company overhead and arising largely before commencement of construction of the pipeline project. Houston Texas contends that these overhead charges, amounting to $312,809 for Harbert Construction Corp., $953,243 for Midwestern and $456,586 for Walco, should reduce the profits earned by the construction companies. The staff contends with respect to Midwestern and Walco that it properly allowed only the costs of their joint venture and disallowed any costs attributable to the separate corporate entities inasmuch as the costs incurred by the

separate entities were not associated directly with the construction of the pipeline. The staff also objects to allocating a portion of the general and administrative expenses of Harbert for the period 1955 through 1958 to reduce the profits of Harbert on the grounds that these costs arose prior to the actual construction, were incurred through efforts to obtain gas sales contracts for the pipeline and represent pre-operational expenses. In our opinion the overhead costs of all three construction companies claimed by them were shown by the record to be associated with the pipeline construction and went to reduce the actual profit they obtained from their contracts with Houston Texas. Therefore the profits disallowed by the staff in the amount of $9,659,183 should be reduced by $1,722,638 to $7,936,545. Interest on the reduced amount would be $250,565, making $8,187,110 in all.

II. Accrual of Taxes on Books of Coastal

The second issue reserved for consideration in these proceedings arises because Coastal accrued on its books $1,737,000 in Federal income taxes for May 1961 through August 1962 when it was merged with Florida Gas Transmission Company, but did not owe or pay such taxes because the consolidated returns filed by the parent company, The Houston Corporation, for the years 1958 through 1961 showed net losses, and it was expected that such losses would occur until 1965. We agree with the examiner that since Coastal did not pay such taxes or become liable to pay them, these amounts should not be accrued on its books, and we adopt the examiner's discussion on this point. We

may point out further that in our opinion Coastal's argument in its exceptions that the *Northern* case,[10] cited by the examiner, is distinguishable and has no merit. Coastal points out that the *Northern* case involves the special treatment given intangible well drilling costs and percentage depletion. It makes no difference whether no tax is paid because there are tax losses resulting from the use of these statutory deductions or whether the losses are operating losses. The point is that where there is no tax liability on a consolidated basis, none should be accrued on Coastal's books and, of course, no taxes would be allowed in a rate case in accordance with our *Cities Service* opinion.[11]

Coastal seeks to interpret the Commission's Uniform System of Accounts as permitting accrual of taxes in that Section 7, Current and Accrued Liability, under "Balance Sheet Accounts" provides that accrued taxes shall be classified "as accrued liabilities even though payable more than one year from date." Coastal says that the taxes accrued on its books will be offset by the first payment of taxes by the consolidated group and therefore will be paid. The statement in the Uniform System of Accounts, however, has reference to taxes payable; that is, taxes for which Coastal is liable, but Coastal was not shown to be liable for taxes except on the contingency that in some later year a tax would be payable on the basis of the consolidated return. Therefore Coastal has no taxes payable and should

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[10] *Northern Natural Gas Company*, 26 FPC 841.

[11] *Cities Service Gas Co.*, FPC, , Opinion No. 396, Docket No. G-18799, July 15, 1963.

not accrue them. Any other result would be inconsistent with *Cities Service,* where we determined that the tax allowance in a rate case should be a proportional part of the taxes payable on a consolidated basis, while here no tax was shown to be payable on the consolidated returns for the period in question.

Coastal contends further that the decision reached by the examiner and by us here would result in rate decreases to nonjurisdictional customers who are not subject to our jurisdiction. This is because they pay for gas on a cost-of-service basis. Contrary to Coastal's contentions, we are not indirectly trying to regulate the nonjurisdictional sales of the system. We are merely determining an accounting matter that was excluded from the settlement of a rate case. The computation of Florida Gas' rates to its nonjurisdictional customers is a matter for private contracts, and we are in no way attempting to fix those rates. Whether the treatment of the consolidated tax required here will have an effect on jurisdictional rates is not before us for determination.

The Commission further finds:

(1) The $7,936,545 recorded in the plant accounts of Houston Texas over the cost to the above-named engineering and construction firms is a write-up and together with the related amount of $250,565 of interest during construction should be transferred from Account 101, Gas plant in service, to Account 116, Other gas plant adjustments, on the books of Florida Gas Transmission Company.

(2) It is reasonable and appropriate that the write-ups and other improper charges in the plant accounts of Florida Gas Transmission Company of $7,936,545 and $250,565 to be transferred to Account 116, Other gas plant adjustments, be disposed of by a charge to earned surplus, except to the extent of any accrued depreciation applicable to the amounts, which depreciation amounts are chargeable to Account 108, Accumulated provisions for depreciation of gas plant in service.

(3) The accruals for income tax purposes by Coastal now reflected on the books of Florida Gas Transmission Company are in violation of the Commission's Uniform System of Accounts.

The Commission orders:

(A) Florida Gas Transmission Company shall classify the amounts of $7,936,545 and $250,565 included in its plant accounts and referred to in Finding (1) above, in Account No. 116, Other gas plant adjustments, of the Commission's Uniform System of Accounts prescribed for natural-gas companies.

(B) Florida Gas Transmission Company shall dispose of the amounts classified in Account 116, Other plant adjustments, referred to in Paragraph (A) above, as set forth in Finding (2) above.

(C) Florida Gas Transmission Company shall eliminate the accruals by Coastal of the amounts accrued for income

tax purposes included in its Accounts 236 and 409, above referred to in Finding (3).

(D) Florida Gas Transmission Company shall submit within 90 days from the date on which this decision becomes final certified copies of accounting entries effecting compliance with the requirements of Paragraphs (A), (B), and (C) above.

(E) The decision of the presiding examiner is hereby adopted as the decision of the Commission to the extent not inconsistent herewith.

(F) Exceptions not specifically granted are hereby denied.

By the Commission.

Commissioner O'Connor dissenting filed a separate statement appended hereto.

Commissioner Woodward dissenting on the issue of consolidated taxes, consistent with the views expressed in his dissenting statement accompanying Opinion No. 396, issued July 15, 1963 in Cities Service Gas Company, Docket No. G 18799, 29 FPC.

(SEAL)

JOSEPH H. GUTRIDE,
Secretary.

Appendix E—Opinion No. 431 of Federal Power Commission

FLORIDA GAS TRANSMISSION COMPANY

COASTAL TRANSMISSION CORPORATION

Docket No. RP61-3

Docket No. RP61-4

(Issued June 8, 1964)

O'CONNOR, Commissioner, *dissenting*:

A primary issue before the Commission is whether four contracts, dated October 23, 1958, were executed between affiliated companies. I respectfully dissent from the majority's conclusion that they were.

At the threshold of this issue lies two subsidiary issues: First, the appropriate date as of which affiliation is to be tested, and secondly, the proper test to be employed at this date.

It is Staff's contention that the test date should be December 8, 1954, when Houston Texas authorized its Board of Directors to enter into Letters of Agreement with the contracting companies. Florida Gas, however, contends that the legally significant date is October 23, 1958, when the definite contracts were finally executed. Fortunately, this issue was raised, argued, and decided twenty-seven years ago.

Appendix E—Opinion No. 431 of Federal Power Commission

In *Florida Power Corporation*,[1] two contractors (Hardaway), two engineers (Mees) and a fifth party (Winthrop) organized West Florida Power Company to build a hydro-electric project. They later transferred their West Florida capital stock to Central Florida Power & Light in consideration for $175,000 and an agreement "... to employ the Hardaways as contractors and the Mees Brothers as construction engineers, provided the purchasers erected a hydro-electric plant on the Ocklocknee River within 3 years."[2] The agreement and stock were subsequently transferred to the Florida Power Corporation, which controlled West Florida at the time the license was granted.

The Commission was then faced with rendering an "actual legitimate original cost" determination for the project. In reaching this determination, it discussed the propriety of including various cost elements. Only two are pertinent here. The first involved $109,903.61 paid by the licensee to its parent for construction supervision. The Commission reaffirmed its conviction, earlier enunciated in the *Alabama Power Co.* case[3] and *Louisville Hydro-Electric Co.*,[4] that inter-affiliate transactions are to be recorded at cost, and summarily disallowed the supervision fee. The second element, however, involved the fees paid to the Hardaways and the Mees Brothers pursuant to the earlier executed service agreements. Here the Commission refused to invoke the exclusionary rule noting that "... whatever

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[1] 1 FPC 390 (1937).
[2] *Id.* at 392.
[3] 1 FPC 25 (1932).
[4] 1 FPC 130 (1933).

financial interest Mees & Mees had in the licensee terminated *at the time the contract of July 8, 1925 was executed.*" [5]

It then concluded:

> "It is obvious that the terms of the sales contract precluded competitive bidding, . . . A careful study of the record, nevertheless, results in the conviction that, notwithstanding the absence of competitive bidders, the fee paid by the licensee is reasonable." [6]

The obvious holding of *Florida Power* is that affiliation is to be tested at the time definitive contracts are executed, and, absent a showing of affiliation the extent of inclusion will depend upon the reasonableness of the fees. Inasmuch as the Commission had previously decided five litigated Section 4(b) cases involving the "no profits" rule,[7] and invoked the rule in this case, *Florida Power* can hardly be dismissed as a decisional oversight.

Further, the decision is eminently sound. The existence of control is relevant, and should be tested, only at the mo-

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[5] 1 FPC at 406. Emphasis supplied throughout this statement unless otherwise stated.

[6] *Ibid.*

[7] *Clarion River Power Co.*, 1 FPC 269 (1935), *aff'd sub nom. Clarion River Power Co.* v. *Smith*, 59 F. 2d 861 (D. C. Cir. 1932), *cert. denied*, 287 US 639 (1932); *Safe Harbor Water Power Corp.*, 1 FPC 230 (1935); *Louisville Hydro-Electric Co.*, 1 FPC 130 (1933), *aff'd sub nom. Louisville Gas & Electric Co.* v. *FPC.*, 129 F. 2d 126 (6th Cir. 1942), *cert. denied*, 348 US 761 (1942); *Chelan Electric Co.*, 1 FPC 102 (1933), *aff'd sub nom. Alabama Power Co.* v. *McNinch*, 94 F. 2d 601 (D. C. Cir. 1937), *cert. denied*, 317 US 652 (1942). Although these cases were decided under the Federal Power Act, Section 6(a) of the Natural Gas Act likewise empowers the Commission to determine "actual legitimate cost." 52 Stat. 824 (1938).

ment legal obligations to pay become vested, for only at this moment do the interests of ratepayers become involved. These interests had not become involved on December 9, 1954. The Letters of Agreement, signed the day before, obligated Houston Texas to do nothing more than negotiate.[8] Enforceable contracts did not come into being, and the interests of ratepayers did not become involved, until October 23, 1958, when the "affiliates" were no longer in control of either The Houston Corporation or Houston Texas. Consequently, testing for control prior to this date is inappropriate.

Equally inappropriate is the majority's contention that to follow Florida Power would allow those in control of a company to negotiate agreements with their own service firms, leave the company, then later have their firm execute a formal agreement with the company along the identical lines set forth in the initial agreement. Surely if the initial agreement legally bound the company to pay specific fees, affiliation should be tested as of that date. This, however, is not the fact in the instant case.

The second subsidiary issue involves the appropriate test for affiliation. Since the *St. Croix Falls Minnesota*

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[8] The Letters of Agreement typify the "incomplete" and thus unenforceable contract to which Page refers in his definitive study of contract law. 1 PAGE, CONTRACTS §§ 87-89 (2d ed. 1920). As an example, he cites offers "which leave the amount of compensation to be determined by subsequent negotiation, fixing only the extreme limits within which the negotiations are to range." *Ibid.* at 122. See generally, 1 WILLISTON, CONTRACTS, *Making of Offers*, §§ 41, 42 (3rd ed. 1957) and 1963 supplement citing similar illustrations of agreements too indefinite for enforcement.

Improvement Co. case,[9] this test has been undisputed. It requires a finding that the reporting company controls, is controlled by, or is under common control with other companies or persons.

The core determination in this case thus becomes: Did the four companies on October 23, 1958, control Houston Texas.[10] In order to adequately answer this question, the structure of The Houston Corporation, as of this date the sole parent of Houston Texas, must be examined.

The Houston Corporation was formed in 1957 with 600,000 authorized shares. At inception, its capital structure was as follows: the Mack group[11] controlled 23.8 percent of the stock; the engineering and construction group[12] controlled 30 percent; Delhi-Taylor, pursuant to a previous agreement, controlled 13 percent; various investment bankers controlled 10.6 percent; and other interests controlled 14 percent. The Board of Directors was comprised of the following: Mr. F. E. Stanley, Mr. Theodore Rinehart, Mr. C. C. Barnard, Mr. O. Paul Herzig, Mr. Paul C. Wallack, Mr. John M. Harbert, III, Mr. Allen R. Kleinkauf and Mrs. H. S. Mack.[13]

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[9] 3 FPC 13 (1942).

[10] There is no claim that these companies were controlled by, or under common control with, Houston Texas.

[11] Estate of J. O. Mack, Helen S. Mack, Allen R. Kleinkauf, B. M. Kleinkauf, O. P. Herzig and family.

[12] Barnard & Burk, John M. Harbert, III, Midwestern Constructors, Walco Engineering & Construction Company, and Midwestern-Walco.

[13] Mr. Harold A. Martin was elected to the Board at the special meeting on December 14, 1957.

Appendix E—Opinion No. 431 of Federal Power Commission

In June of 1958, however, the acquisition of Coastal Transmission Company from Delhi-Taylor, as well as the consummation of the public financing, caused a structural alteration in The Houston Corporation. Delhi-Taylor now held 48.3 percent of The Houston Corporation stock. The interest of Mr. Barnard, who as of June 1957 held 2.55 percent, fell to .9 percent. The interest of Mr. Harbert, previously 4.7 percent, fell to 3.3 percent. Likewise, the interest of Mr. Wallack and family, previously 4.8 percent, decreased to but 3 percent. The same dimunition was true in the case of Mr. Stanley and family, whose interest went from 6.18 percent to 2.4 percent. Changes in control were reflected in changes in management. At the June 1958 annual meeting, the Board of Directors became composed of Mr. W. J. Bowen, Mr. Leon M. Payne, Mr. Carl M. Mueller,[14] Mr. Harold A. Martin, Mr. Rinehart, Mr. Stanley, and Mr. Barnard.[15] The Board of Houston Texas was likewise reconstituted. As of this date it was comprised of Messrs. Bowen, Herzig, Kleinkauf, Payne, Rinehart, Stanley, and Mrs. Mack.

Consequently, the gist of the majority's opinion is that four companies dominated Houston Texas at a time when: First, six of its seven directors and five of the seven directors of The Houston Corporation were admittedly beyond

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[14] Mr. Mueller subsequently resigned and was replaced by Mr. Felix A. Mulgrew, a Vice President of The Bankers Trust Company on February 15, 1959.

[15] At this time the principal officers of The Houston Corporation were: Mr. Stanley, Chairman of the Board and President; Mr. Bowen, Director and Senior Vice President; Mr. Rinehart, Director, Senior Vice President and Secretary; Mr. Herzig, Vice President-Engineering, and Mr. Kleinkauf, Assistant Treasurer.

their control,[16] and second, the sum total of all their interest was 9.6 percent. I cannot subscribe to this conclusion.

The majority's error lies in its confusion of "lack of arm's length bargaining," which may have existed in this case, with "affiliation," which surely did not. "Lack of arm's length bargaining" may include "affiliation" but it does not necessarily include it. "Lack of arm's length bargaining" is a general term; all it requires is that a contract be executed under conditions of collusion, fraud, gross neglect or undue influence. In such event, the reporting party then has the burden of justifying the reasonableness of its claimed costs. Any costs in excess of what is determined to be reasonable are disallowed. "Affiliation," however, is a word of art. If affiliation is found, any profit paid is summarily disallowed and the reasonableness of the profits is irrelevant. Affiliation, however, requires a very specific finding; namely, that as of the date of the execution of a contract, one of the parties controlled, was controlled by, or was under the common control with, the other party. As applied to the instant case: it means that the four parties not only had the power to execute the October 23 contracts under any terms they desired, but that they also, at this date, possessed the power ". . . to direct or cause the direction of the management and policies of [The Houston Corporation] . . ."[17] This requirement demands by its

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[16] Tr. 1598. Staff Witness Heim admitted that no control existed as to Messrs. Bowen, Payne, and Rinehart. Three other directors, Messrs. Herzig and Kleinkauf and Mrs. Mack were never considered to be controlled by the service firms.

[17] Section 5(b) of the Uniform System of Accounts, defining "control."

very terms that these four companies have complete control over every phase of corporate management as of October 23, 1958. Not even Staff has asserted that control existed to this extent, but without it the whole claim of affiliation must fall.[18]

The majority's contention that *St. Croix* can be satisfied with less than this, and that the "no-profits" rule was designed to preclude all insider profits, is an overstatement. Its principle was not "no profits to insiders:" but "no profits to *controlling* insiders," and it was developed to prevent holding companies from compounding profits in inter-corporate transactions. The rule recognized the fiction of treating corporations, dominated by a common parent, as separate. It also recognized that only with this dominance could they be said to be but one corporate entity. This is revealed by examining the corporate relationship to which the rule was applied. It is also revealed by comparing the rule, as enunciated in *St. Croix,* with true "no profits to insiders" rules such as Section 12 of the Natural Gas Act, Section 305(a) of the Federal Power Act, and Section 2(a)(11)(A)-(D) of the Public Utility Holding Company Act of 1935.[19]

The distinction between "affiliation" and "lack of arm's length bargaining" is not an exercise in academic hair-splitting. It is both substantive and significant, and is supported by the legal history of the "no-profits" rule.

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[18] *Cf., Detroit Edison Co.* v. *S.E.C.,* 119 F. 2d 730, 738-39 (6th Cir. (1941), *cert. denied* 314 U.S. 618 (1941), defining "control" under a less stringent statute than Section 5(b).

[19] 49 Stat. 804 (1935).

Appendix E—Opinion No. 431 of Federal Power Commission

The inception of the rule is often recognized as *Smith* v. *Illinois Bell Tel. Co.*,[20] where litigation arose over rates set for Illinois Bell Telephone by the Illinois Commerce Commission. In dispute were several cost items including payments made to the Western Electric Company for equipment. Ninety-nine percent of the stock in Western Electric, as was 99 percent of the stock in Illinois Bell, was owned by American Telephone & Telegraph. Thus, American Telephone & Telegraph was in a position to exercise complete control over every phase of the Illinois Bell and the Western Electric operations. In reversing and remanding for additional findings, the Supreme Court noted:

> ". . . Western Electric Company, through the organization and control of the American Company, occupied a special position with particular advantages in relation to the manufacture and sale of equipment to the licensees of the Bell System, including the Illinois Company, that is, that *it was virtually the manufacturing department for that system*, . . ."[21]

The Smith case was relied on two years later in *Western Distrib. Co.* v. *Pub. Serv. Comm'n of Kansas.*[22] Here Cities Service Gas Company was selling gas to Western Distributing Company at the city gate of El Dorado, Kansas. The two companies were under the common control of Cities Service Company, a once removed holding enterprise. Western Distributing Company had filed for a rate in-

[20] 282 U.S. 133 (1930).

[21] *Id.* at 153.

[22] 285 U.S. 119 (1932).

crease, and a question arose over the reasonableness of the 40¢ per Mcf paid to Cities Service Gas Company. Western argued that inasmuch as the rate was charged in interstate commerce its reasonableness was beyond the scope of inquiry of the Kansas Commission. The Supreme Court rejected the contention saying:

> "Having in mind the affiliation of buyer and seller and the *unity of control* thus engendered, we think the position of the [Commission] is sound, . . . Those in control of the situation have combined the interstate carriage of the commodity with its local distribution in *what is in practical effect one organization.*" [23]
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> "All of these facts so averred in the pleadings would be far more persuasive with respect to the propriety of the rate if the parties were independent of each other and dealing at arm's length. *Where, however, they constitute but a single interest and involve the embarkation of the total capital in what is in effect one enterprise,* the element of double profit and the reasonableness of inter-company charges must necessarily be the subject of inquiry and scrutiny before the question of the lawfulness of the retail rate based thereon can be satisfactorily answered." [24]

Thus, in both *Smith* and *Western,* the inter-corporate relations were entirely different from those currently before us, for in both cases corporate control vested elsewhere than

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[23] 285 U.S. 124.

[24] *Id.* at 126.

in the managerial discretion of the reporting company. Consequently, a finding of affiliation was unquestionably correct.

The following year the Commission rendered its decision in the *Louisville Hydro-Electric Co.*[25] case, clearly the most expositive and well-reasoned of all Commission opinions dealing with the rule.[26] The question presented was whether a 7½ percent fee paid to the Byllesby Service Company, affiliated to the licensee through the intricate H. M. Byllesby Company corporate lacework, was properly includable in the "actual legitimate original cost" of the project. A brief discussion will sufficiently portray the circumstances in which the rule was meant to apply, and distinguish those circumstances from the ones presently before us.

The Byllesby Service Company was the managing, directing, constructing and servicing agency of the entire sys-

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[25] 1 FPC 130 (1933), *supra* note 7.

[26] Prior to *Louisville*, the Commission had rendered two decisions dealing with the no-profits rule. The first was *Alabama Power Co.*, 1 FPC 25 (1932), which involved the propriety of including a 3 percent fee paid to the Dixie Construction Company, an affiliate of the licensee. Affiliation existed at the time construction commenced because Alabama Power solely controlled Dixie. Five months later, however, Alabama Power transferred Dixie to Winona Coal Company. Winona was under the sole control of the Traction Company, which also solely controlled Alabama Power. Further, Alabama Power and Dixie shared common officers and directors. Thus, affiliation was properly found and the fee disallowed. The second case was *Chelan Electric Co.*, 1 FPC 102 (1933). There American Power & Light had lent money to the licensee, its wholly owned subsidiary, at 7 percent, the legal rate in the state wherein the project was located. The Commission properly held that due to the degree of control, affiliation existed and the cost of the money to the parent, and not the legal rate, should control the amount included in the licensee's rate base.

tem, and officers and directors were completely intertwined into every branch. Thus, the vice president who signed the contract for Byllesby was at the same time director, assistant secretary and assistant treasurer of the licensee. He was, further, vice president and assistant secretary of the licensee's immediate owner, the Louisville Gas & Electric Company of Delaware, as well as a director, secretary and treasurer of the Standard Company, which controlled Louisville Gas & Electric. Further, the signator for the licensee was, while being its vice president, also a director in both Louisville Gas & Electric and the Standard Company. The contract's attestor was an assistant secretary in all four companies.

The control exercised by Byllesby was not limited to the execution of contracts. It drafted the licensee's articles of incorporation. It prepared, filed, and ramrodded the application before this Commission for a license. After the license was granted, Byllesby then negotiated and consummated the financing, purchasing, construction, and inspection. It also did most of the accounting and legal work, for all of which it made extraordinary profits.[27] The Commission noted, however, that for these profits Byllesby made no investment and it took no risk. It purchased materials and supplies for the licensee's account, and it received a cost-plus return. Further, as the finances of the licensee were under system control, it had no losses due to bad debts, delays in collecting, lawsuits or disputes.

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[27] A Federal Trade Commission audit, entered into the record, revealed that for the years 1922-1927, Byllesby's net income was $10,794,953.17, representing a profit of 98.5 percent.

Appendix E—Opinion No. 431 of Federal Power Commission

With these facts before it the Commission began its total denunciation of the H. M. Byllesby Company system in general, and of the fee contract where involved in particular.

The Commission pointedly commented on the licensee's freedom of action:

> "Upon these admitted facts there is no room for quibble or doubt that licensee has no independence of action, but that decisions made by licensee operating company and the Byllesby Service Co. were made by the same group of men, acting in dual, triple, and quadruple capacities, responsive primarily to the holding and controlling interests. This corporate 'family' control was so complete in fact and limited in personnel as to require but 1 room, 1 table, 1 small group of men at 1 point of time to dictate on behalf of the *pater familias* an offer by 1 member and an acceptance by another." [28]

Of the contract there in issue, the Commission said:

> "The service contract in question is monopolistic, requiring the exclusive employment by the operating company of the Byllesby Service Co. for a term of 10 years, and provided for a profit to be paid by licensee, a public utility, for the benefit of a private holding company, into whose treasury every dollar of the profits extorted from the operating company is siphoned through the holding company's wholly owned service company. So complete was the reliance on this control, the contract for the construction service, running into several millions of dollars

[28] 1 FPC at 135.

> was not entered into until April 15, 1926, prior to which time a large amount of the work for which this fee is claimed had already been done. Contrary to business custom, the officers and directors of the licensee, acting in their capacity, for that company found it unnecessary to have the contract in advance of beginning work to guard against misunderstanding or unreasonable and arbitrary charges, since they were dealing with themselves under the guise of another corporation. To ask the Commission to find that in the making of this fee contract there was any arm's length bargaining, or real independence of action on the part of the licensee, assaults the credulity of the Commission beyond reason." [29]

Numerous other Commission decisions have held the no-profits rule to be applicable,[30] but their detailed discussion would be both repetitive and anticlimactic. It is sufficient merely to note that in every instance the affiliate possessed the power, although that power was not always fully exercised, to totally dominate the managerial policies and decisions of the reporting company. In no instance was a contention of affiliation successfully asserted where the claimed

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[29] *Id.* at 135-6.

[30] *Colorado Interstate Co.* v. *F.P.C.*, 324 U.S. 581 (1945); *California Oregon Power Co.* v. *F.P.C.*, 150 F. 2d 25 (9th Cir. 1945) *cert. denied*, 326 U.S. 781 (1946); *Pennsylvania Power & Light* v. *F.P.C.*, 139 F. 2d 445 (3rd Cir. 1943), *cert. denied*, 321 U.S. 789 (1944); *Louisville Gas & Elec. Co.* v. *F.P.C.*, 129 F. 2d 126 (6th Cir. 1942), *cert. denied*, 318 U.S. 761 (1942); *Alabama Power Co.* v. *McNinch*, 94 F. 2d 601 (D. C. Cir. 1937), *cert. denied*, 317 U.S. 652 (1942); *Pacific Power & Light* v. *F.P.C.*, 134 F. 2d 602 (5th Cir. 1943); *Minnesota Power & Light*, 3 FPC 388 (1943); *Puget Sound Power & Light*, 3 FPC 231 (1942); *Northwestern Elec. Paper Co.*, 3 FPC 83 (1942), affirming 2 FPC 327 (1940).

affiliate possessed less than this power. Nor should it have been, not only because a lesser showing would have violated the *St. Croix* test, but also because it would not have equitably supported the drastic consequences necessarily flowing from a finding of affiliation: complete deletion from plant accounts, and, if the finding is made at certification proceedings, disallowance to the companies of any profit.

Reaching the conclusion that no affiliation, either as defined in *St. Croix* or as found in any previous case, existed between Houston Texas and the four interested parties is not determinative of the question of how much profit is properly includable in Houston's plant accounts. As clearly stated in *Pennsylvania Power & Light Co.*, we have a regulatory obligation to test the reasonableness of all claimed costs:

> "The word 'legitimate' does involve an element of reasonableness. A claimed cost may be so in excess of the cost of comparable construction or purchase that it raised a question of collusion, fraud or gross neglect which would cast on the licensee the burden of proving the circumstances which would justify the claimed cost, and in the absence of such proof the claim in excess of what is reasonable should be disallowed." [31]

Such questions are, admittedly, raised by the instant facts and thus the last question becomes: Were the profits paid by Houston Texas reasonable?

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[31] 3 FPC 89, 119 (1942). Although the Commission was here defining the word "legitimate" as used in the Federal Power Act, their interpretation would apply equally to Sec. 6(b) of the Natural Gas Act. See note 7 *supra*.

Appendix E—Opinion No. 431 of Federal Power Commission

In answering this, two analyses, must be made: First, did the contracts, under which the profits were made, contain standard industry compensatory provisions; and secondly, as a check reference, how did the final costs compare with relevant industry costs?

Industry compensatory clauses are of two varieties. One is a cost-plus provision, which repays the contractor his total construction costs plus either a fixed percentage return on those costs or a lump sum. These provisions insulate the contractor from substantially all risks. In every Commission case applying the no-profits rule, the cost-plus, no-risk method of compensation was employed.

The second method is the fixed-unit method. Here a construction project is either quantitatively or qualitatively categorized into work units which are then prescribed standards of construction and bases of payment. Under this method, the entire risk attendant to bad weather, labor disputes, geological difficulties and rising construction costs fall on the contractor. Assuming no outrageously high unit payments, he is assured of no profit. Contractors can minimize this risk by the inclusion of escalation clauses whereby increased costs are absorbed by the builder. There were no such clauses in any Houston Texas contract. Specifically, Section 7.2 provided:

> "It is understood that the unit prices enumerated in the Contract cover and include all of the compensation to be received by Contractor from Company for furnishing necessary materials, labor, tools and equipment, and for performing all work contem-

> plated and embraced under the contract; all overhead, superintendence, labor, use of equipment; all loss or damage arising from the nature of the work or from action of the elements or from any unforseen difficulties which may be encountered during the prosecution of the work until the final acceptance by the Engineer; all risks of every description connected with the prosecution of the work; and all expenses incurred in consequence of the suspensions or discontinuance of the work as herein specified and for completing the work according to the Plans and Specifications."

The contracts entered into by Houston Texas all included this type of compensation provision.[32] Consequently the contracts were, on their face, clearly reasonable.

Although the ambiguous language of Opinion 301 is open to various and conflicting interpretations, one fact is clear: At the time the opinion was rendered, the cost estimates were reasonable.

> "Houston Texas has likewise presented evidence pertaining to the engineering feasibility and cost estimates of the project. As to the latter, the evidence supports a finding that its cost estimates for materials and construction compare favorably with present-day costs experienced by other pipeline companies and are reasonable." 16 FPC at 129.

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[32] Except for Barnard & Burk who were to receive 1 percent of the cost of all pipeline work up to and including $60,000,000 and ¾ percent of the cost in excess of $60,000,000. They were also to receive 2 percent of the cost of compressor stations, meters, regulator stations, and employee housing facilities. A subsequent agreement set the maximum fee at $865,000.

The final prices resulting from these contracts likewise appear to be reasonable. The Coastal Transmission Corporation mainline, a suitable check reference, supports this conclusion.

Concurrent with Houston Texas beginning its construction of the 24-inch Baton Rouge, Louisiana-Florida mainline, Coastal began construction of a similar mainline from Mission, Texas, to Baton Rouge. For the most part, it traversed terrain substantially more amenable to excavation and pipe laying than that crossed by Houston Texas. Consequently, if the unit costs of Florida Gas approximate those of Coastal, which have already been reviewed and approved by the Commission staff, they must be allowed to stand.

Evidence reveals that Houston Texas' unit prices not only approximated Coastal's they were uniformly cheaper. Thus, the unit cost per foot for the 24-inch mainline (which represented 63 percent of Coastal's total facility cost and 74 percent of Houston Texas') was $4.391 for Coastal and $4.363 for Houston Texas. Houston Texas' installation cost per horsepower of $69.39 was likewise cheaper by $3.49.[33] This same relationship was true for rural laterals; Coastal's cost per diameter inch per lineal foot ran 22 cents, while Houston Texas' was only 20.1 cents. Although substantial expert testimony pertinent to the reasonableness of Houston Texas' costs was unfortunately excluded by the Presiding Examiner, and although close scrutiny may have revealed that the Houston Texas mainline could have been

[33] The completed compressor station cost for Houston Texas ($309.00) ran slightly higher, however, than that for Coastal ($293.00).

more economically constructed,[34] I am persuaded that these costs are not unreasonable. Consequently, I would allow the totality of the profits to remain, as they are now, in the Houston Texas plant accounts.

I conclude by noting that the majority's error of law is compounded by their error of judgment. I have serious apprehension that their decision, which negates the previous definition of affiliation and extends the no-profits rule into an undelineated area, will only have a deleterious effect on the public interest.

This interest has often been served by projects which were the creative progeny of but a few promoters. These promoters, lacking the vertical integration of large companies, were forced to incorporate with scattered interests in order to metamorphose idea into actuality. As was only logical, representatives for these interests often became officers or members of the board of the infant corporation.

Their financial insignificance, however, when coupled with the uncertain prospects for remuneration, made investments of time and capital a substantial risk. As compensa-

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[34] The fact that a project could have been more cheaply constructed does not, *per se,* make its costs unreasonable.

> "The Commission has carefully reviewed the testimony of all the witnesses with reference to the cost of cutting trees in the pond area, and piling and burning same, *and while there is evidence in the record that this work might have been more economically accomplished, the record shows that the money was* actually spent and paid, and the work done by local contractors or labor employed in the locality of the project on the best terms that licensee secure. Upon these facts shown by the record, the Commission approves the total expenditures. . . ." *Florida Power Corp.,* 1 FPC 390, 398 (1937).

tion, they were oftimes given stock options, and, in addition, the right to the construction contracts, at reasonable prices, in the event the project was ultimately certificated. These were the only terms upon which they would consent to invest, and consequently, the only terms under which these valuable projects could have been built.

The day of the pooled-interest project is thus over. This decision will insure projects either being constructed by organizations sufficiently large to absorb the potential loss, or else remaining unconstructed. Neither alternative, I submit, is either dictated by or commensurate with the public interest.

* * * * *

Completely aside from my belief that no affiliation within the definition of *St. Croix* exists in this case, there is still another equally persuasive reason why the plant accounts should remain untouched.

Since passage of the Natural Gas Act in 1938, this Commission has repeatedly appeared before Congress for remedial legislation. Although in every instance the plea was made that without congressional assistance we would be ill-equipped to discharge our entrusted responsibilities, the most significant request ever made, or granted, was that which led to the 1942 amendment of Section 7. As originally enacted, Section 7 gave the Federal Power Commission certificate jurisdiction only over facilities used to transport interstate gas to a market already being served by another natural gas company. It was immediately ap-

parent that this was a severe jurisdictional limitation.[35] In order to remedy it, Congress was requested to amend Section 7(c) so as to give us certificate jurisdiction over all interstate facilities and, as a concomitant power in a proposed Section 7(e), the power to condition those certificates as the circumstances required.

Thus, in June of 1941, Chairman Olds wrote a letter to Representative Clarence F. Lea, Chairman of the Committee on Interstate and Foreign Commerce on H. R. 4819, the proposed amendment to Section 7. In his letter, Chairman Olds stated:

> "Adequate regulation is obviously not provided unless the Commission has jurisdiction to regulate the construction of the pipeline and control its initial financing as well as to regulate its operation after construction. By the unregulated construction of the pipeline, the public interest may be so disregarded that proper regulation of operation thereafter may prove a difficult matter or may be practically impossible because the construction of the line is uneconomic or costs are inflated. *Regulation should begin with construction of the line, not with operation after construction.*"

H.R. 4819 ultimately became H.R. 5249 which was discussed before the House Committee in July of 1941. At this time, Commissioner Manly further supplemented the above statement of Chairman Olds.

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[35] *E.g., Western Natural Gas Company,* Docket No. G-168, and *Independent Natural Gas Company,* Docket No. G-178. (Consolidated into order issued 2 FPC 910 (1941) which dismissed, for want of jurisdiction, applications for certificates of public convenience and necessity to serve the Wisconsin market.)

Appendix E—Opinion No. 431 of Federal Power Commission

"Commissioner Manly . . . .

"Now, what the Commission does under ordinary conditions is to require those conditions to be set forth in the authorization for a certificate that is accepted by the company as a condition precedent to the actual issuance of the certificate, so that in all intents and purposes the company has a right to reject a certificate containing any conditions which are unreasonable, onerous, or have no relevancy to the issue."

"Mr. South. That is what I have in mind. If they are too burdensome, then the application could be withdrawn."

"Commissioner Manly. They could come back before the Commission and ask for a rehearing if they regard the terms and conditions as being onerous."

"Mr. South. As a general proposition, you would say that this is exercised in the public interest for the purpose of broadening the service sought to be rendered; would you go that far?

"Commissioner Manly. I would not quite agree with the latter. *It would be primarily for the purpose of making explicit the conditions under which the certificate is being issued.*"[36]

Some three months later, the bill favorably reported out of committee with the following introduction:

"The bill when enacted will have the effect of giving the Commission an opportunity to scrutinize the financial set-up, the adequacy of the gas reserves,

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[36] *Hearing Before the House Committee on Interstate and Foreign Commerce*, 77th Cong., 1st Sess. (1941).

> the feasibility and adequacy of the proposed services, and the characteristics of the rate structure in connection with the proposed construction or extension *at a time when such vital matters can readily be modified as the public interest may demand.* Without such authority, the Commission may find itself confronted with a situation where it must either accept conditions which appear undesirable in the public interest, *or require, subsequent to construction, changes which may have much more serious practical consequences than they would have had if they had been made before the public was asked to finance the enterprise.*" [37]

The amendment was passed the next year.[38]

Given this congressional sanction, the Commission enacted Part 157 of its Regulations. This specifies, in detail, the information required to be filed with certificate applications and is designed to fully apprise the Commission as to whether a project will, in fact, be in the public interest. The filing is recognized as a "forthright obligation of the applicant," [39] and, as Part 157(c) makes clear, the Part will be strictly applied in all applications.

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[37] *House Committee on Interstate and Foreign Commerce Report No. 1290 on Amendments to Section 7 of the Natural Gas Act,* 77th Cong., 1st Sess., pp. 2-3 (1941).

[38] Our facility jurisdiction under the Federal Power Act is decidedly narrower. There our certification authority is limited to generating facilities which occupy Government lands, navigable streams, or streams which affect interstate commerce. Consequently, we have neither the opportunity nor the obligation to examine, prior to construction, the costs of projects to be located elsewhere even though the resulting energy is to flow in interstate commerce.

[39] Part 157.5(b).

Appendix E—Opinion No. 431 of Federal Power Commission

One of the most significant of the Part 157 requirements involves the filing, under sub-Parts 157(a)(4)[40] and 157(a)(15)[41], of detailed information concerning any corporate or financial relationships that may exist between the applicant and other persons. The relevance of this information to a section where certificates are granted only if they are in the public interest is clear: such relationships can detrimentally affect this interest and thus, before a certificate should be issued, these relationships should be analyzed in a detail commensurate with that imposed upon

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[40] "(4) Exhibit D—Subsidiaries and affiliation. If applicant or any of its officers or directors, directly or indirectly, owns, controls, or holds with power to vote, 10 percent or more of the outstanding voting securities of any other person or organized group of persons engaged in production, transportation, distribution, or sale of natural gas, or of any person or organized group of persons engaged in the construction or financing of such enterprises or operations, *a detailed explanation of each such relationship,* including explanation of each such relationship, including the percentage of voting strength represented by such ownership of securities. If any person or organized group of persons, directly or indirectly, owns, controls or holds with power to vote, 10 percent or more of the outstanding voting securities of applicant—*a detailed explanation of each such relationship.*"

[41] "(15) Exhibit M—Construction, operation, and management. A concise statement setting forth arrangements for supervision, management, engineering, accounting, legal, or other similar service to be rendered in connection with the construction or operation of the project, if not to be performed by employees of applicant, including reference to any existing or contemplated agreements therefor, together with:

(i) A statement showing affiliation between applicant and any parties to such agreements or arrangements. See Exhibit D, paragraph (a) (4) of this section.

(ii) Conformed copies of all construction, engineering, management, and other similar service agreements or contracts in any way operative with respect to construction, operation, or financing of facilities which are the subject of the application or will be applicable under system operations.

the applicant. Following this analysis, a clear, concise decision should be rendered as to whether a relationship existed which would bring any fee payments within the no-profits rule. This is the bare minimum to which applicants are entitled.

There is no doubt that the applicants in G-9262 complied with sub-Parts 157(a) and 157(a)(15). They fully disclosed all financial and corporate relationships existing between the "affiliate" companies and Houston Texas, the proposed contractual arrangements, and the project's estimated cost. Moreover, the applicants explained this information in detail at the hearing.[42] In the event this mass of testimony was overlooked, Green's Fuel, intervenors in Docket No. G-9262, placed the Commission on notice to a possible affiliation issue with the following statement:

> "The evidence is clear and undisputed that Houston proposes to let contracts to insiders without competitive bidding for the construction of the line and compressor stations, as well as a supervision and engineering contract."[43]

If this were not enough, a statement of the relevant relationships, as well as concise statements of Houston Texas' intent to enter into contracts with the construction and engineering groups, appeared in their plan of financing, submitted on July 1, 1958, and approved on August 7, 1958. Thus, at three stages of the certification proceedings—prehearing, hearing, and post-certification—the Commission

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[42] *E.g.*, pp. 7363, 7369, 7592-93, 7596-98, 7600, 7602-4, 7608.

[43] Brief for Intervenor, Docket No. G-9262.

had full knowledge of every fact which it now relies upon to substantially alter its original order of December 28, 1956.

What response did the Commission make to this voluminous evidence? Just this: Out of a 29-page opinion, it devoted *one sentence* to an issue that inevitably became, eight years later, the subject of intense, expensive litigation involving almost 6 percent of a company's plant account. This minusclue consideration read:

> "While as we have already stated, the cost of the proposed facilities appears to be reasonable, in view of [the proposed contractual arrangements], this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates of Houston Gas." [44]

The sentence is classically vague. What does it say? Does it say that the disclosed costs were acceptable and only future additions would be scrutinized? Does it say that the *total* project cost would be later scrutinized? What does "scrutinized" mean? Examined again for "reasonableness," which was already found to exist as to the then-known costs, or examined to delete affiliate profits, when all the facts relevant to this issue were then known? Whatever this sentence says, it does *not* say that "we have carefully reviewed the relevant corporate relationships existing between Houston Gas and the construction and engineering firms and find that the fees, proposed to be paid to these firms, will (or will not) come within the 'no profits to affiliates rule.' "

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[44] 16 FPC 118, 142 (1956).

Appendix E—Opinion No. 431 of Federal Power Commission

It seems incredible that a Commission, which fought so hard for the power to condition certificates, should have then paid it such lip service. Forgotten were the words of Commissioner Manly, whose advocacy over considerable opposition led to the passage of Section 7(e), that the conditioning power "would be primarily for the purpose of making explicit the conditions under which the certificate is being issued."[45] Discarded was the principle that jurisdiction—here to impose conditions—must carry a commensurate obligation—to impose them at the earliest times. There is little doubt that the obligation exists. Recognizing it, the Supreme Court recently noted that the significance of Section 7(e) is that it gave the Commission conditioning power " . . . *at a time when such vital matters can be readily modified as the public interest may demand.*" (Emphasis in original.) The Court went on to state:

> "Clearly, the Commission was given the power to lay down conditions precedent to the entry of natural gas in interstate commerce. Moreover, the Commission has long recognized this obligation and has required modification of many tariff and contract provisions as a condition to the granting of a certificate."[46]

By failing to state an affirmative position on the affiliate fee issue, the Commission undoubtedly lulled both the ap-

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[45] *Supra,* note 36.

[46] *F.P.C.* v. *H. L. Hunt,* 84 Sup. Ct. 861, 868 (1964), quoting the *House Committee Report on Interstate and Foreign Commerce No. 1290.* This principle was reiterated in *F.P.C.* v. *Texaco,* 84 Sup. Ct. 1105 (1964).

plicants and subsequent investors into the mistaken belief that the fees, thrice disclosed, were legitimate plant account inclusions. Without this belief, this valuable line could never have been financed: the rate base reductions resulting in decreased returns—from an already marginal project—would have made it too assuredly speculative to attract prospective investors.[47] It is the investors, specifically, the holders of the 5,323,672 outstanding common shares comprising a total equity of $48,724,432, which today's order detrimentally affects. These shareholders, currently saddled with a retained earnings deficit of $5,265,673, will now suffer an increase in this figure to almost $13,500,000 and a decrease in their total equity of almost 16.5 percent. The total result will be to postpone needed expansions, lower Florida Gas' bond rating, further decrease the attractiveness of its common stock, and increase the cost of its money. All of this, of course, will be reflected in higher gas rates.

We have repeatedly stated that our certification implies no guarantee that a project will operate profitably. This disclaimer does not diminish our responsibilities to the general public, including the investing public, to completely

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[47] There is no controversy over the public benefits derived by the line. First, the Florida Railroad & Public Utilities Commission supported the company's position. It noted ". . . Florida Gas has contributed tremendously to the economy and welfare of the State." Exceptions of Intervenors, p. 15. The Florida Commission exercises jurisdiction over the twelve distributor customers of Florida Gas which, in turn, serve 230,000 customers, and the two electric company customers which serve 1,202,000 customers. Secondly, the customers of Florida Gas all supported its position (Record, Vol. 5, pp. 616-19) and adopted a resolution on December 12, 1962, so stating. Brief of Intervenor, Appendix B.

dispose of any legal issue raised at the time of certification. We certificate with full knowledge that anything less than complete disposition will be interpreted as tacit approval. This obligation was undiminished in the present case by the presence of a *caveat,* if it can be so graced, obscured deep in the confines of The Houston Corporation stock prospectus issued a year and a half subsequent. Page 22 of that prospectus contained the statement that "[t]he Federal Power Commission has made no determination as to the proper rate base for Coastal or Houston Texas or allowable rate of return thereon (except during the development period to the extent stated under 'Agreements Between Coastal and Houston Texas')." The following sentence said "[t]he Federal Power Commission has determined the rate base of other natural gas companies to be the original cost of the property used or useful in the transportation of natural gas for resale . . ., less depreciation plus a reasonable allowance for working capital." Inasmuch as there was no indication that the rate base properties were not "useful in the transportation of natural gas in interstate commerce," nor any mention of the "no-profits rule" as a principle of exclusion from rate bases, the utility of the *caveat* was substantially diminished. This obligation is also undiminished by the recitation of any legal touchstone concerning an overall obligation to consumers. Our moral and legal duty to fully apprise industry applicants of the grounds upon which they are offered a Section 7 certificate, prior to their detrimental reliance thereon, must remain inviolate.

Appendix E—Opinion No. 431 of Federal Power Commission

In my view, this case falls squarely within that envisioned by the Oregon Supreme Court when it said:

> "The doctrine of 'equitable estoppel' or 'estoppel in pais' is that a person may be precluded by his . . . silence, when it is his duty to speak, from asserting a right which he otherwise would have had."[48]

Consequently, I would hold that this Commission is estopped to expunge now, eight years after the issue was appropriately raised by the applicants but deferred by an either indifferent or indecisive Commission, the questioned fees from the applicant's plant accounts.

Consistent with my dissent in the previous *Cities Service* case, I also dissent to the majority's treatment of the consolidated tax issue.

/s/ L. J. O'Connor, Jr.
L. J. O'Connor, Jr., Commissioner

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[48] *Marshall* v. *Wilson*, 154 P 2d 547, 551-52 (1945). For cases holding the doctrine of equitable estoppel applicable against governmental agencies see 2 Davis, Administrative Law, § 17.03 (1958) and 1963 Supplement.

APPENDIX F

Opinion No. 431-A of Federal Power Commission

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners:

Joseph C. Swidler, Chairman; L. J. O'Connor, Jr., Charles R. Ross, Harold C. Woodward, and David S. Black.

Florida Gas Transmission Company Docket No. RP61-3
Coastal Transmission Corporation Docket No. RP61-4

OPINION No. 431-A

OPINION AND ORDER DENYING REHEARING

(Issued August 5, 1964)

SWIDLER, Chairman

Florida Gas Transmission Company and the Florida Public Utilities Commission on July 7, 1964 filed applications for rehearing of our Opinion No. 431 and accompanying order issued June 8, 1964. There we found that $7,936,545 representing profits of four affiliated engineering and construction firms, along with the related amount of $250,565 of interest during construction, should be eliminated from Florida Gas' plant accounts. We also found that accruals for income tax purposes on the books of the predecessor Coastal Transmission Corporation were improper because there was no tax liability for the corresponding period on the basis of the consolidated tax return. In general the issues are treated in our original opinion,

and no purpose will be served in repeating our discussion except for the comments below.

Florida Gas contends that we have promulgated new and different criteria and to the detriment of the company have applied them to facts that had occurred at a time when the former criteria governed. In our opinion we have not adopted a new rule but have applied an old rule to new circumstances. For instance, Florida argues that "the no-profits-to-affiliates" rule has always required a finding of "control" and that such control must exist at the time of the execution of the contracts which created the costs. Without defining the limits reached by the earlier cases, in the present case based on the circumstances discussed in our original opinion we found (mimeo p. 6) that the construction and engineering group though never in a position of legal control in the sense that they had majority stock control, from the beginning occupied a dominating position which as a practical matter precluded any independent action to give the principal construction and engineering assignments to anyone else so long as the inside group's bids were not grossly out of line. The circumstances shown in the record and discussed in our opinion traced the continuing effect of this control up to the period when the contracts were actually executed.

Assuming that in so holding, our opinion expressed a new rule for determining whether to exclude the profits of affiliates this does not invalidate it. In numerous cases unnecessary to cite here courts, while reluctant to proceed retroactively, have applied new rules of law to past transactions. As said in *S.E.C.* v. *Chenery Corp.*, 332 U.S. 194,

203, cited by Florida Gas, "Every case of first impression has a retroactive effect, whether the new principle is announced by a court or by an administrative agency." The court added: "But such retroactivity must be balanced against the mischief of producing a result which is contrary to a statutory design or to legal and equitable principles. If that mischief is greater than the ill effect of the retroactive application of a new standard, it is not the type of retroactivity which is condemned by law."

In the present case the "mischief" is permitting the plant accounts of the company to be distorted by this kind of cost, so that there will be little choice in a rate case but to require the consumers of the gas to pay a return on insiders' profits for the expected life of the property. Furthermore, as stated in our original opinion, the language of the Commission's Opinion No. 301 (16 FPC at p. 142), regardless of differences of opinion as to its meaning, at least should have raised a question in the minds of the promoters of Florida Gas or its predecessors as to the treatment that might be accorded the profits item.

Florida Gas argues that there was no basis on which to find that the engineering and construction firms formed an "affiliated group." We did not find, nor did we need to find, that they agreed with each other or that they were formally affiliated with each other. The four firms were affiliated with Houston Texas or its predecessor, and the records make clear that they combined their talents and financial resources to promote the pipeline project not only as investors but also as persons having special interests in the profits to be made from the pipeline's construction. While

Florida Gas points out that the original organizer, Mr. J. O. Mack, negotiated separately with representatives of the several firms, these negotiations were at arms-length, if at all, only to the extent Mack may have had some original control as to which persons he would select from those approaching him with an interest in construction and engineering profits from a successful pipeline. Once the representatives of the several firms had become members of the promotional group further relationships were not at arms-length. The Houston Texas board could as a practical matter not repudiate the oral agreements and, as related in the original opinion, the influence of these early relationships carried forward to the execution of the formal contracts four years later.

Both the Florida Commission and Florida Gas argue that we were in error in citing language in the *St. Croix* case, 3 FPC 13, 21, to the effect that it is impossible to determine what is reasonable cost where an affiliation exists. They point out that evidence was presented in this case that would have enabled us to determine the reasonableness of the pipeline costs. We cited the *St. Croix* case to show the infirmities which exist in any attempt to determine costs where the relationship between the parties is one of affiliation. Actually such evidence is irrelevant and was properly stricken by the examiner. Once the affiliation is established, the profits of the promoters of the project do not represent cost at all, and for this we cited *Louisville Hydro-Electric Company*, 1 FPC 130, 133.

Florida Gas also argues that the $7,936,545 in profits which we deleted from its plant accounts should have been

reduced by the amount of the Federal income taxes on these profits. Obviously if we disallow the entire profit of the affiliated contractor we cannot allow as a cost a portion of that profit which was paid in Federal income taxes. If Florida Gas' plant accounts should not include profits between affiliates it would indeed be an anomoly to include taxes that have been incurred only because of such profits. Furthermore, we note that Florida Gas did not raise this point in its exceptions, and under section 1.31(c) of our Rules has thus waived it.

Florida Gas finally contends, as does the Florida Commission, that we have misinterpreted the language of Opinion No. 301, particularly the statement by the Commission that: "While as we have already stated, the cost of the proposed facilities appears to be reasonable, in view of this fact, this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates of Houston Gas."

Florida Gas says it made a complete disclosure of the facts and would interpret the Commission's language to mean that the estimated cost of the facilities, including the profits, appears reasonable but in view of the relationships outlined the Commission is going to scrutinize the costs carefully after they are incurred to made sure that the actual costs are, in fact, reasonable. In support of its position Florida Gas has appended copies of affidavits from three former members of the Commission who participated in the issuance of Opinion No. 301, and has asked that the record be reopened to receive these affidavits.

Appendix F—Opinion No. 431-A of Federal Power Commission

The Florida Commission contends that the language is clear and unambiguous and that it is sheer sophistry for this Commission to seek an interpretation that converts the quoted language into a warning that "scrutiny" would be synonymous with "non-acceptance" of amounts in excess of the costs of the engineering and construction firms.

The affidavits submitted by Florida Gas, in general, state that it was not the intention of the Commission when Opinion No. 301 was issued on December 28, 1956, to apply the no-profits to affiliates rule or to warn the applicant that it might be applied later. The affidavits of Chairman Kuykendall and Commissioner Kline state that there was no intention that the rule be applied later; otherwise the opinion would have so stated. Commissioner Connole states his view that the Opinion No. 301 treatment "accorded to these estimated costs, including the estimated profits, as disclosed, would be disposed of if a future proceeding dealing with such matters should ever be before the Commission, but no decision was reached nor warning intended nor recommendation made that such profits should be eliminated from the capital plant accounts—." Chairman Kuykendall was in the majority; Commissioners Connole and Kline dissented, although on rehearing Commissioner Kline joined the majority and Commissioner Connole concurred. The remaining two members of the majority, Commissioners Digby and Stueck, are now deceased.

Affidavits of former members as to the interpretation they intended to be placed on language of Commission opinions is not a customary basis for interpreting Commission deci-

sions and, at least in the circumstances here, we do not think it is proper. As Florida Gas concedes, we cannot inquire into the mental processes of a Commissioner nor ascertain what he considered. *United States* v. *Morgan,* 313 US 409, 422; *Chicago, B & Q Ry. Co.* v. *Babcock,* 204 US 585, 593. There are a number of cases (see 97 CJS 514) including *Covey* v. *American Distilling Company,* 132 F. 2d 453 (CA7) cited by Florida Gas, that accept evidence from a Judge in a prior proceeding as to the matters litigated. Frequently these cases involve the application of the doctrine of *res judicata* to a court judgment where the identity of the issues is a matter of some importance. However, none of the cases called to our attention involves admission of evidence as to what a judge or a Commissioner meant by a full opinion setting forth his determinations and the reasons for them. In somewhat different circumstances the Supreme Court has said that judgment "ought never to be overthrown or limited by the oral testimony of judge or juror of what he had in mind at the time of the decision." *Fayerweather* v. *Ritch,* 195 US 276, 307.

We have before us an opinion which does not in terms even discuss the applicability of the no-profits-to affiliates rule, pro or con. As Commissioner Connole's affidavit indicates, it expressly leaves open for further consideration the entire question. The majority on Opinion 301 found the estimated total costs (including the profits) reasonable for purposes of granting a certificate to the proposed pipeline. For other purposes they left these costs for later scrutiny. See *Coastal Transmission Corp.,* Docket No. G-18338, *et al.,* 26 FPC 677, at 685. Assuming arguendo that one Commission could bind

its successors on a matter of this sort, they did not limit this scrutiny, and they did not say how this scrutiny was to be conducted. The problem of the method and scope of the scrutiny was deferred. The intervenor who had raised the issue in the certificate proceeding could not have contested the failure of the Commission to apply the rule since it had not decided against him. We, of course, express no opinion as to what individual members of the Commission may have thought or intended. The affidavits are an attempt to add something to the opinion that was not there before and cannot be retroactively added to it.

Thus the argument of the Florida Commission that the language of Opinion No. 301 is unambiguous and that the cost of the facilities cannot mean only cost less profits is beside the point, for the language does not define the scrutiny to be applied. Likewise the argument of the Florida Commission that we should have found that Florida Gas had made full disclosure does not affect the result. There is no issue here on this point, and, irrespective of full disclosure, the costs of the pipeline were subject to scrutiny under Opinion No. 301. Our response to the Florida Commission also applies to the dissenting statement of Commissioner Woodward.

Commissioner O'Connor's dissent points to possible losses to investors. Where such losses are the result of insiders' profits, the investors may have legal remedies through the courts, whereas the consumers must depend upon the action of the regulatory bodies having rate and accounting jurisdiction.

Appendix F—Opinion No. 431-A of Federal Power Commission

On the question of Coastal's taxes, Florida Gas continues to argue that Coastal could have accrued taxes on its books although no taxes were payable on the consolidatd return on the theory, apparently, that taxes will be payable in later years. It cites our Uniform System of Accounts Section 7 "Current and Accrued Liabilities" as permitting the accrual of taxes as accrued liabilities even though payable more than one year from date. This section, however, assumes that whenever payable the item constitutes a liability. Here, during the period in question, no taxes were payable on the consolidated return, nor was there any liability incurred for taxes. Therefore Coastal, in accordance with the *Cities Service* case,[1] could not accrue any liability for taxes.

Florida Gas further argues that because of the elimination of the construction profits from cost the company's tax depreciation will be greater than the depreciation allowed on its books for cost of service purposes with a resultant windfall to jurisdictional and nonjurisdictional customers. This is an issue not before us here and will have to be determined in a proceeding affecting Florida Gas' rates. The nonjurisdictional rates appear to be subject to the jurisdiction of the Florida Commission.

The Commission finds:

(1) The assignments of error and grounds for rehearing set forth in the applications for rehearing of Florida Gas Transmission Company and the Florida Public Utilities Commission present no new facts or principles of law which

[1] *Cities Service Gas Co.*, 30 FPC 158, July 15, 1963.

were not considered by the Commission when it issued its Opinion No. 424 and order or which, having now been considered, warrant any change in or modification of said Opinion and Order.

(2) The petition by Florida Gas to reopen the record to receive the affidavits should be denied.

The Commission orders:

(A) The applications for rehearing filed by Florida Gas and the Florida Commission are hereby denied.

(B) The petition to reopen filed by Florida Gas is hereby denied.

By the Commission. Commissioners O'Connor and Woodward dissenting filed separate statements appended hereto.

(SEAL)

JOSEPH H. GUTRIDE
Secretary

This matter was decided prior to the death of Commissioner Woodward.

Appendix F—Opinion No. 431-A of Federal Power Commission

Florida Gas Transmission Company Docket No. RP61-3

Coastal Transmission Corporation Docket No. RP61-4

(Issued August 5, 1964)

O'CONNOR, Commissioner, *dissenting*:

In my dissenting statement to Opinion No. 431, I strenuously contended that a Commission which neither timely nor definitely disposed of a significant, appropriately raised issue, violated not only the specific terms of the Natural Gas Act, but also a moral obligation to the industry and the investing public.

Three affidavits have recently been filed by the still-living members of the 1956 Commission. All three, which I consider as though introduced in evidence before the Presiding Examiner, verify that the no-profits rule was raised and considered during the certification deliberations. All three indicate that the Commission was cognizant of the possible consequences of its invocation. Two of them recognize the obligation of specificity, which then-Commissioner Kline characterizes as a " . . . duty as a member of the Commission to protect the interests of all groups, and not to approve a certificate if such action might lead to entrapment of future investors."[1]

Because of these affidavits, I appreciate more clearly the prominence the no-profits issue attained during the Houston Texas certification proceedings. Consequently, I am

[1] Affidavit of Arthur Kline, filed in Application for Rehearing of Opinion No. 431, filed by the Florida Gas Company.

even more convinced that the then-Commission was derelict in its failure to clearly dispose of that issue, and that this Commission is estopped to dispose of it now. The recent 5th Circuit reversal in *Hill* v. *FPC*,[2] which admonished the Commission for declining "to undergo the judicial travail of weighing [a record] on which complete information was furnished," reinforces my convictions.[3]

A point made by Florida Gas indicates the financial severity flowing from the majority's decision. Eliminating costs from a utility's Plant Account reduces not only its gross return, but, for purposes of accounting under the Uniform System of Accounts, its annual credit to Reserve for Depreciation. In calculating its net income for tax purposes, however, the plant account elimination will not be made, although the elimination will be indicated by a reduced return. This results in an actual tax liability, assuming the current corporate tax rate of 50%, that is lower by 50% of the difference between the two depreciation figures.[4]

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[2] F. 2d (July 23, 1964).

[3] The Commission will be squarely faced with this travail in the *Natural Gas Pipeline Company of America* proceedings, Docket No. CP62-243, where the Staff, contrary to its position in G-9262, is requesting a ruling on the affiliation question contemporaneous with certification.

[4] Thus, where prior to elimination the gross income was $100 and the sole expense a depreciation figure of $50, the books, for both federal income tax purposes and Uniform System of Accounts purposes, would indicate a tax liability of $25. Assuming elimination from plant decreased gross income to $90, the depreciation charge for tax purposes would remain at $50, but would decrease for purposes of accounting under the Uniform System of Accounts. Assuming a decrease to $40, the tax liability for accounting purposes would remain at $25, (50% of $90—$40), but the actual tax liability would be but $20 (50% of $90—$50).

Under the "actual taxes" figure, the lower—actually paid—tax charge will be included in the company's cost of service.

Thus, the net effect of the majority's decision is to preclude from recovery, through the allowance for depreciation, over $8,000,000 in plant costs; to give solely to the ratepayers the $4,000,000 benefits of a legitimate tax deduction; and to deny a return to investors of over $7,375,000.[5] The impact, obviously, falls upon the investor but for whom this concededly valuable project could never have been financed. The unfortunate investor, lulled into a regrettably false sense of security by regulatory inaction, now finds himself entrapped through no fault of his own.

This outcome is onerous when one considers that the excluded costs were not fictitious or watered, but were eminently reasonable. It is particularly onerous when one considers that their exclusion results from applying a rule, born out of the early abuses of the electric power industry, which was neither designed for, nor necessitated by, the historical development of the natural gas industry.

Three other points have appeared in both the majority's basic opinion and their order denying rehearing which require comment.

The first involves the majority's desperate attempt to attribute some meaning to the troublesome language in Opinion No. 301. In so doing, they engage in a bit of contorted interpretation. The language, to them, says that the engineering and construction profits are includable for

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[5] This figure is the 30 year return at 6¼% assuming a depreciation rate of 3⅓% on a declining rate base.

testing the economic feasibility of Houston Texas, but that they are potentially excludable in any subsequent rate-making or accounting proceeding. Assuming this was the language's *raison d'etre,* one legitimately wonders how a meaningful feasibility determination can be made when the rate base—upon which dollars of return are dependent—remains subject to sizable dimunition. Particularly is this true when the basis for dimunition is readily visible at the time of certification.

The second point lies in the majority's embarrassing inability to decide who is affiliated to what. Are the engineering and construction companies collectively affiliated to Houston Texas, or severally affiliated? Only through collective association does their conclusion of affiliation have even remote validity, for no individual company was sufficiently influential to direct the policies of Houston Texas by itself. The obvious problem with a theory of collective affiliation, however, is the absence of an agreement, either explicit or implicit, to act as a collective entity, or of any evidence that they even so considered themselves. Consequently, the majority hinges their decision on an individually-affiliated theory, even though—by twenty-eight year old standards—this requires finding that *each* company had the power to direct the policies of Houston Texas. The majority tries to obscure their difficulties with this position by referring to the individual companies as a "group". This is a nifty nametag, but as a smokescreen, it shields little.

The third point lies in their repeated insistence that the Mack interests, up until 1958, the date the final contracts

were executed, continued to be completely dependent upon the construction and engineering companies. I doubt this to be true. Prior to 1956, these companies conferred a great benefit upon J. O. Mack: they stayed with him when others, feeling the project would never be certificated and thus the large expenses attributable to preliminary studies never recovered, refused to commit themselves. Prior to certification, the withdrawal of any one of the companies may well have quashed the entire project. In 1956, however, Houston Texas received its certificate of public convenience and necessity. From this date forward, a different picture was presented. Had any of the companies then decided to withdraw, the Mack interests would have had little difficulty in finding others: outside financing had been negotiated, federal sanction had been acquired, and thus recoupment of expenses—plus a reasonable profit—was the likely result for any company offered the role. The control, which may have existed either collectively or severally in the original companies in the pre-certificate days, doubtlessly did not carry over to the post-certificate days. Any assertion to the contrary does not recognize the practicalities of the industry.

For reasons expressed in my original statement to Opinion 431, and supplemented here, I dissent to this opinion and order denying rehearing. Although I remain convinced that the reasonableness of the questioned costs has been proven, in order to perfect the record, I would remand this issue for further consideration.

/s/ L. J. O'Connor, Jr.
L. J. O'Connor, Jr.
Commissioner

Appendix F—Opinion No. 431-A of Federal Power Commission

Florida Gas Transmission Company Docket No. RP61-3

Coastal Transmission Corporation Docket No. RP61-4

(Issued August 5, 1964)

WOODWARD, Commissioner, *dissenting*:

When Opinion 431 issued,[1] I dissented on the issue pertaining to consolidated taxes.[2] The Petitions for Rehearing of that Opinion and Order[3] have compelled further analysis and, for reasons hereinafter, stated, I must now respectfully dissent to the Opinion and Order Denying Rehearing.

The elimination of profits is barred by res judicata and estoppel, as well as by equity. While the limits of these doctrines in the field of administrative law is the subject of controversy, Davis sees an increasing tendency to apply them in order to do equity.[4]

The issue in the original cost case involved a determination of the proper amounts to be recorded by Houston Texas in its plant account as the actual legitimate original cost of its facilities which were constructed in 1958 and

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[1] Opinion No. 431, Opinion and Order on Accounting For Construction Profits and Consolidated Tax, Adopting Examiner's Decision With Modification, issued June 8, 1964.

[2] See dissenting statement accompanying Opinion No. 396, issued July 15, 1963 in Cities Service Gas Company, Docket No. G-18799, 29 FPC —.

[3] Application of Florida Gas Transmission Company for Rehearing of Opinion 431 and accompanying order issued June 8, 1964 and Petition to Reopen and argument in support thereof.

Petition of Intervenor Florida Public Utilities Commission for Rehearing of Opinion No. 431 and accompanying order.

[4] Davis, *Administrative Law*, § 17.09, 18.02 and supplements.

1959, pursuant to the authorization of this Commission issued in December, 1956, in its Opinion and Order No. 301.[5]

In that Opinion, the Commission unequivocally stated that while "the cost of the proposed facilities appears to be reasonable—this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates . . ." The words used are plain and unambiguous; they have commonly and universally accepted meanings. The costs involved included allowances for *profits and fees*[6] and they were subject to full disclosure to the Commission in the initial certificate proceeding. This fact is uncontroverted in the record.

The Commission raised no objection to the cost evidence nor did it find any disqualifying inadequacy as to the correctness of the plant accounts submitted by the applicant. Significantly, however, our predecessors did find it necessary to impose several conditions in the certificate *relating to other matters.*

In short, "cost" cannot now be held to mean only cost less profits any more than "scrutiny" of those costs can be held to be synonomous with exclusion of reasonable profits. The word "cost" referred to the pipeline's cost since the Commission never discussed the contractor's cost.

The profits in issue arose solely from construction and engineering services rather than stock ownership and al-

[5] Opinion No. 301 (16 FPC 118), issued December 28, 1956.

[6] Emphasis supplied throughout this statement unless otherwise indicated.

lowance of the total costs, admittedly, would result in no higher costs to be recovered from consumers than would be recovered had other independent contractors constructed the pipeline. On its face, such a result is not derogatory of the public interest and this fact cannot be ignored or deemed irrelevant; it is the core of the responsibility which Congress has committed to the custody of this Commission.

Here, there was no write-up of rate base through inter-affiliate sales; there was no artificial inflation of rate base through a write-up of assets in a pooling-of-interest transaction. Nothing evil or secretive transpired. Houston Texas contracted for its work with well-established concerns experienced in the business, not on a cost-plus-a-fee basis which would guarantee the contractors a profit, but on the basis of a fixed price per unit of work, placing all risk of loss on the contractor. The evidence tendered to substantiate these facts is complete and convincing and it proves that there has been no inflation of the rate base. Absent a showing of misrepresentation, concealment or fraud, the Commission has no reason to seek now to employ a concept entirely different from that provided in Opinion 301. There has been no such showing.

There is another, perhaps decisive issue in this proceeding—the disallowance of amounts of construction costs now recorded in the plant accounts of Houston Texas would constitute a modification of the original certificate since that certificate, in effect, permitted payment of "reasonable" costs.

Appendix F—Opinion No. 431-A of Federal Power Commission

Under the facts and circumstances before us, we do not possess authority to achieve such a result any more than did the Interstate Commerce Commission in *United States* v. *Seatrain Lines,* 329 U.S. 424. There the Court held that the Commission, under the Interstate Commerce Act, could not limit a certificate once it had been issued. Similarly, there is no provision in the Natural Gas Act for modification or revocation of a certificate, partial or otherwise.

The entire amount of engineering and construction costs, including profits, should be allowed if they were reasonable and compared favorably with similar construction costs to other companies. Failure to admit evidence to this effect precludes a proper determination by the Commission of the original cost issue in this proceeding. The matter should be remanded to the Examiner with instructions to admit evidence as to reasonableness of cost, and to submit further findings and conclusions to the Commission for consideration.

Rehearing should be granted and Opinion and Order No. 431 should be reversed and set aside.

HAROLD C. WOODWARD
Harold C. Woodward

APPENDIX G

Opinion No. 431-B of Federal Power Commission

UNITED STATES OF AMERICA
FEDERAL POWER COMMISSION

Before Commissioners: Joseph C. Swidler, Chairman; L. J. O'Connor, Jr., Charles R. Ross, and David S. Black.

Florida Gas Transmission Company Docket No. RP61-3

Coastal Transmission Corporation Docket No. RP61-4

OPINION No. 431-B

OPINION AND ORDER DENYING REHEARING WITH RESFECT TO REOPENING RECORD

(Issued October 2, 1964)

SWIDLER, Chairman:

On September 3, 1964, Florida Gas Transmission Company filed an application for rehearing of our Opinion No. 431-A and order issued August 5, 1964, insofar as the Opinion and order relate to the petition of Florida Gas to reopen these proceedings. In our Opinion No. 431-A and order we denied rehearing with respect to our original Opinion No. 431 and order issued June 8, 1964, in which among other things we disallowed as the cost of Florida Gas' pipeline the amount of $8,187,110 representing profits of affiliated engineering and construction companies. We also denied Florida Gas' petition to reopen the record upon

the basis of attached affidavits from three former members of this Commission generally to the effect that Opinion No. 301 (16 FPC 118) granting Florida Gas' predecessor, Houston Texas Gas & Oil Corporation, a certificate did not contemplate application of the no-profits-to-affiliates rule but merely a scrutiny of the costs as to their reasonableness.

In the present application for rehearing Florida Gas renews its request that we reopen the record pointing out that the object of the Petition to Reopen was not to have the affidavits received in the record, but to have the testimony of these persons received.

Our objection to consideration of the statements of the former Commissioners in Opinion No. 431-A went not to the fact that they were by way of affidavits, rather than testimony which could be the subject of cross examination, but to the propriety of attempting to go behind the language of an opinion to determine on the basis of the recollection of former Commissioners, what they intended to decide. We do not think the issue is anyway changed by the suggestion that the Commissioners' testimony, if permitted to be introduced into evidence, would cover the question of what issue they believed was before them for decision as well as how they thought they were resolving it.

The extrinsic facts are that in the course of the proceeding in Docket No. G-9262 leading to Opinion No. 301, an intervener, Green Fuels, Inc., raised the question of whether the non-profits-to-affiliates rule should not be applied to petitioner in view of the relationship between

that company and the construction-engineering group which had been disclosed, and the matter was discussed pro and con in the briefs of some of the other interveners and the applicant. However, the Commission in its discussion did not mention the no-profits-to-affiliates rule or in terms adopt or reject the intervener's contentions. Instead it confined itself to the statement:

> . . . While as we have already stated, the cost of the proposed facilities appears to be reasonable, in view of this fact [that three companies who would perform construction activities for the pipeline had presidents who were each officials and directors of Houston Gas, and two of which owned blocks of Houston Gas stock], this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates of Houston Gas. (16 FPC 142)

It is of course possible that the Commission in deciding the matter, and the three Commissioners in the majority, in subscribing to the above statement, intended to hold that the intervener was wrong and the applicant right as to the application of the no-profits-to-affiliates rule, and that "in any future proceeding dealing with accounting or rates of Houston Gas" the careful scrutiny to be given to proposed construction costs would be limited to their reasonableness. This is not, however, what was said. The intervener, who had raised the matter in the first place, clearly was not put on notice by the language the Commission utilized that, if he did not seek rehearing on this point and then raise it on review, there would be a final adjudication outstanding against him on this issue. More impor-

tant, there was nothing in this vague language which could properly have led Houston Texas to the conclusion that the Commission had necessarily resolved the question in its favor rather than deferring it for subsequent consideration on an appropriate record devoted expressly to the issue. Thus, even assuming that the Commission intended to resolve the issue in petitioner's favor, testimony to that effect today could not change the fact that they did not do so. The time for petitioner to have sought clarification from the Commissioners as to the intent of their language was when the matter was still pending before the agency, not years later during the course of the subsequent proceeding the Commission's language pre-shadowed.

It devolved upon this Commission to interpret the vague language quoted above. In carrying out this ordinary duty of any judicial body to interpret its prior opinions, we think it would be highly improper to consider affidavits from former Commissioners as to what was before them or what was decided by them, and even more improper to call them as witnesses. We are here dealing with the opinion of a quasi-judicial body. Courts and commissions speak only in their opinions. To depart from this traditional rule would remove any assurance as to the significance to be attached to written opinions, and would make the meaning of our decisions depend on subjective impressions and the vagaries of memory.

The distinction which petitioners attempt to make between what an opinion means and what issues it covers is without substance. The issues decided by an opinion (as well as how they are decided) can be determined only from

the opinion itself. In our judgment it is clear that the prior opinion in this case did not decide the issue whether the no-profits-to-affiliates rule should be applied in determining the original cost of this pipeline.

The Commission further finds:

The assignments of error and grounds for rehearing set forth in the application for rehearing of Florida Gas present no new facts or principles of law with respect to reopening the record to receive the testimony of three former members of this Commission which were not considered by the Commission when it issued its Opinion No. 431-A and order or which, having now been considered, warrant any change in or modification of said Opinion and order except as indicated below with respect to receipt of testimony rather than affidavits.

The Commission orders:

(A) The application for rehearing filed by Florida Gas with respect to Opinion No. 431-A and order is hereby denied.

(B) The petition to reopen the record to receive the testimony of three former members of the Commission is hereby denied.

By the Commission.

(SEAL)

JOSEPH H. GUTRIDE
Secretary

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 659

FRANK ROSS, *Petitioner*,

v.

F. E. STANLEY, ET AL., *Respondents*.

BRIEF IN OPPOSITION

TO

PETITION FOR CERTIORARI

in behalf of

F. E. Stanley, W. J. Bowen, Harold A. Martin, and O. Paul Herzig, four of the Respondents.

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NOVEMBER 10, 1965.

PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

INDEX

	Page
Position of These Respondents	2
Nature of Case—Jurisdiction	3
Proceedings—Basis of Decisions	4
Affirmance on Appeal	6
Limitations—Not a Federal Question	9
No Right to Initial Decision of Supreme Court	11
Conclusion	13

CITATIONS

Bell v. Morrison (1828), 1 Pet. 351, 360, 7 L. ed. 174, 178	10
Bouserman v. Blunt (1893), 147 U.S. 647, 13 S. Ct. 466, 37 L. ed. 316	10
Campbell v. Haverhill (1895), 155 U.S. 610, 15 S. Ct. 217, 39 L. ed. 280	10
Canter v. American Insurance Co. (1830), 3 Pet. 307, 7 L. ed. 688	8
Florida Economic Advis. Council v. Federal Power Commission (CA-DC 1958), 251 F. 2d 643, cert. den. 5/19/58, 356 U.S. 959, 2 L. ed. 2d 1066, 78 S. Ct. 996	12
Ginsberg v. Black, 7 Cir. 1956, 237 F. 2d 790, 792, cert. den. 77 S. Ct. 669, 353 U.S. 911, 1 L. ed. 2d 665, rehear. den. 78 S. Ct. 776, 356 U.S. 948, 2 L. ed. 2d 822	7
Guaranty Trust Co. v. York (1945), 326 U.S. 99, 65 S. Ct. 1464, 89 L. ed. 2079	10
Helvering v. Gowron (1937), 302 U.S. 238, 245, 82 L. ed. 224, 230	8
Helvering v. Pfeiffer (1937), 302 U.S. 247, 251, 82 L. ed. 231	8
Kam Koon Wan v. E. E. Black Ltd., 9 Cir. 1961, 188 F. 2d 558, 563	7
Letulle v. Scofield, 1940, 308 U.S. 415, 84 L. ed. 355, 360	7, 8

Page

Morley Construction Co. v. Maryland Casualty Co. (1937), 300 U.S. 185, 81 L. ed. 593 9
Ragan v. Merchants Transfer & Warehouse Co. (1949), 337 U.S. 530, 69 S. Ct. 1233, 93 L. ed. 1520 10
Schildhauer v. Moe (Cir. 2—1963), 319 F. 2d 587 8
Smith v. Sperling, 354 U.S. 91 (text 95), 1 L. ed. 2d 1205 (text 1210), 77 S. Ct. 1112, 68 ALR 2d 805 ... 9
Swanson v. Traer, 354 U.S. 114, 1 L. ed. 2d 1221, 77 S. Ct. 116 9
Tallman v. Udall (Cir-DC, 1963), 324 F. 2d 411 9
Teague R.R. v. Blossburg & Corning R.R. (1873), 20 Wall. 137, 22 L. ed. 331 10
United States v. Meyer, CA 5—1959, 266 F. 2d 747, cert. den. 80 S. Ct. 138, 361 U.S. 875, 4 L. ed. 2d 113 7
Wells v. Simmonds Abrasive Co. (1953), 345 U.S. 514, 73 S. Ct. 856, 97 L. ed. 124 10
Zellinger v. Uvalde Rock Asphalt Co. (Cir. 10—1963), 316 F. 2d 47 8

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 659

FRANK ROSS, *Petitioner,*

v.

F. E. STANLEY, ET AL., *Respondents.*

BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI in behalf of F. E. Stanley, W. J. Bowen, Harold A. Martin, and O. Paul Herzig, four of the Respondents.

This Brief in Opposition to Petition for Certiorari by Frank Ross, Petitioner (Plaintiff in District Court, and Appellant in Court of Appeals, Fifth Circuit), is filed by the four individual Respondents named above.

POSITION OF THESE RESPONDENTS

Our position is that the Petition for Certiorari should not be granted, for the following reasons, viz:

1. No showing has been made by the said Petition sufficient to call for an exercise by the Supreme Court of its sound judicial discretion involved in the granting of any Petition for Certiorari.

2. There is no special nor important reason for granting a review on Writ of Certiorari, nor any need therefor, such as are delineated in Rule 19(b).

3. There is no federal question involved in the order of dismissal entered by the District Judge on Sept. 30, 1963 (Printed Record in Court of Appeals, hereafter denominated R. —, pages 127-133), nor in the affirmance thereof by the Court of Appeals, Fifth Circuit, *Ross* v. *Stanley* (June 1, 1965, Rehearing Denied July 13, 1965), 346 F. 2d 645-654.

4. The only issue decided by the District Court, affirmed by the Court of Appeals, was that the Second Amended Complaint be dismissed. No decision was rendered by either the District Court or the Court of Appeals against the Defendants-Appellees (Respondents herein), and therefore no occasion for any Respondent to seek review of an adverse ruling by the District Court or by the Court of Appeals.

5. The only determination or decision of the Court of Appeals, Fifth Circuit, was: "we hold that the entire lawsuit is barred by the statute of limitations" (346 F. 2d 646 text), and therefore that Court's conclusion: "The judgment of the trial court to the extent that it dismissed the claim as being barred by the statute of limitations" (346 F. 2d 650 text) was proper.

The only limitations involved were those of the State of Florida about which there is no contrary view by either Court below nor by any party hereto.

6. There is nothing novel, precedent shattering, or precedent setting that (a) the established rule that in a diversity action in District Court the limitations to be applied are those of the State, nor (b) that a Court of Appeals should affirm a dismissal or other final judgment that is correct under the law, even though on a different ground in part than assigned by the trial court.

NATURE OF CASE—JURISDICTION

This was a stockholder's derivative action brought in the U. S. District Court, Middle District of Florida, by Frank Ross, the owner of 117 of some 25,000 shares common stock of Florida Gas Company, a Florida corporation, against the latter, and Florida Gas Transmission Company (a wholly owned subsidiary under laws of Delaware), the directors of both companies at various dates, and four contracting and engineering firms, claiming alleged tortious conduct by the directors and the contractors (in whom some directors had an interest) in connection with the execution of contracts in November 1958 for building the Louisiana-Florida part of a Texas to Florida gas pipeline for Florida Gas Transmission Co.

It is a diversity suit, the only basis claimed for U. S. District Court jurisdiction being: "The jurisdiction of the Court is based on diversity of citizenship and jurisdictional amount" (Second Amended Complaint, R. 44)—To same effect, see also Petition for Certiorari, page 2.

PROCEEDINGS—BASIS OF DECISIONS

Suit was instituted by complaint filed Aug. 3, 1962 (R. 15). The Second Amended Complaint was filed Feb. 6, 1963 (R. 44). To that, all defendants (who were served with process) filed Motions to Dismiss (R. 82, 119, 120, 122, 125). Those motions to dismiss challenged the complaint "on a number of grounds" (R. 127). After extensive argument and memorandum briefs, the District Court did not rule on the merits of any claimed cause of action, nor on many of the other points advanced by the defendants. The District Court found that the motions to dismiss should be granted, the order stating:

> Since the plaintiff cannot recover on either of the grounds of recovery set out in the second amended complaint, it is the opinion of the Court that the motions to dismiss should be granted. (R. 132)

Because of the order of dismissal, the District Court felt it was not necessary to rule, either for or against the defendants, on other points raised—he saying that, by the dismissal they were "rendered moot and do not require a ruling by the Court." (R. 133)

> Note: The opinion and order of dismissal by the District Court is not attached to the Petition for Certiorari; but it appears in the Printed Record in the Court of Appeals, pages 127-133, filed in this Court.

The Petitioner's Notice of Appeal (R. 134) to the Court of Appeals from the District Court, stated that he "appeals"—

> from the final order and judgment herein dated and entered September 30, 1963, dismissing this cause as to the Defendants named therein and

> from each and every part of such order and judgment, except that Plaintiff does not appeal from so much thereof as dismisses this cause as to Defendant Barnard & Burk, a partnership, and as to the Defendant, Constructors of Florida, Inc.

These Respondents (as four of appellees) before the Court of Appeals, contended that "the Order of Dismissal should be affirmed, not only for the reasons properly assigned by the District Court, but also for other reasons" (Our Brief, p. 70). There were two main questions involved on the appeal, viz: (1) "whether the District Court erroneously or correctly ruled that the cause of action, if any, attempted to be alleged in the Second Amended Complaint, is barred by the three-year Florida statute of limitations;" and (2) "whether the final judgment of dismissal also is correct on any ground other than that assigned by the District Judge" (Our Brief p. 8).[1]

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[1] There were many matters presented to the District Judge, and to the Court of Appeals for affirmance of the Dismissal—Limitations barring any clause of action—No cause of action stated—Letter agreements in 1954 with contracting firms for construction at "a cost no higher than an arm's length contract for similar work under similar circumstances"—Full disclosure of planned contracts and method of construction, costs, detailed relationship of contractors and Florida Gas Transmission, approved in 1956 in certificate proceeding by Federal Power Commission, Opinion No. 301, 16 FPC 118-151, affirmed in Florida Economic Advis. Council v. Federal Power Commission (CA-DC), 251 F. 2d 643, cert. den. 5/19/58, 356 U.S. 959, 2 L. ed. 2d 1066, 78 S. Ct. 996—Petitioner's (appellant's) admission (Br. p. 54) that "the complaint here does not allege that Transmission agreed to pay more (construction contracts of Nov. 1958) than the value of the services it was to receive. The service contracts as such were, therefore, not damaging to Transmission"—Failure to comply with Rule 23(b)—Jurisdiction and venue problems—Complete irrelevancy of subsequent proceedings before Federal Power Commission with respect to ac-

The Court of Appeals did not rule on the contentions as to the merits, either of Plaintiff or of Defendants, but affirmed the Order of Dismissal, saying:

> This is an appeal from an order of the district court dismissing this shareholder's derivative action which the trial court considered to have alleged two separate claims, one for damages and the other for unjust enrichment. The court dismissed the former claim on the ground that it was barred by the Florida three-year statute of limitations and it dismissed the latter claim on the ground that it was prematurely in court. Whether or not this conceptual bisection of the complaint is too finical a refinement, it can avail the appellant nothing. Regardless of the number of claims which may have been stated, we hold that the entire lawsuit is barred by the statute of limitations. (346 F.2d 646 text).

AFFIRMANCE ON APPEAL

An appeal lies only to an adverse judgment, not to the ground or reason assigned by the trial Court therefor. If one party appeals, then the successful litigant below may support the decision in his favor not only on the ground or reason given by the trial Court but also on any other legal ground or reason which supports the judgment from which the adverse party has appealed.

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counting, none of parties herein (except only Florida Gas Transmission Co.) being parties to those proceedings before FPC whose administrative rulings or decisions do not create private rights; and those subsequent proceedings, Opinions 431 of 6/8/64, 431-A of 8/5/64, and 431-B of 10/2/64, being now under review by Court of Appeals, Fifth Circuit—etc. It is obvious, of course, that the matters relating to the merits (other than the grounds specifically stated therein) were not ruled on by the District Court or by the Court of Appeals, Fifth Circuit, in 346 F. 2d 645.

In this case, the Petitioner as Appellant against whom the judgment or order of dismissal had been entered appealed to the Court of Appeals from that—

> final order and judgment * * * dismissing this cause * * * and from each and every part of such order and judgment (R. 134).

The Appellees (Respondents here) properly urged all "matters appearing in the record in support of a judgment".[2, 3]

The argumentative statement of Petitioner (Petition p. 19) that "in the absence of a cross-appeal, the rule * * * forbids an appellate court to modify the lower court's decision to the detriment of the appellant" is much too broad and does not apply to an affirmance on a different ground than that assigned by the Court below. The cases cited by Petitioner (p. 20) relate to situations only where no cross-appeal was taken to an adverse ruling. It is significant here that there was no ruling by the District Court adverse to Defendants—the District Court did not rule that limitations did not bar the entire action. The Court of Appeals did so rule, and therefore properly sustained the Defendants-Appellees' position with respect there-

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[2] Quotation from *Letulle* v. *Scofield* 1940, 308 U.S. 415, 84 L. ed. 355, 360. To same effect, appellees cited: *Kam Koon Wan* v. *E. E. Black Ltd.*, 9 Cir. 1961, 188 F. 2d 558, 563; *Ginsberg* v. *Black*, 7 Cir. 1956, 237 F. 2d 790, 792, cert. den. 77 S. Ct. 669, 353 U.S. 911, 1 L. ed. 2d 665, rehear. den. 78 S. Ct. 776, 356 U.S. 948, 2 L. ed. 2d 822.

[3] "It is a rule applicable to appeals in criminal as well as civil cases that 'a successful party in the District Court may sustain its judgment on any ground that finds support in the record.'" *United States* v. *Meyer*, CA 5 1959, 266 F. 2d 747, cert. den. 80 S. Ct. 138, 361 U.S. 875, 4 L. ed. 2d 113.

to and properly affirmed the judgment of Dismissal with all legal incidents to that affirmance. See Footnote[4] as to cases cited by Petitioner.

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[4] Cases cited by Petition, page 20 thereof:

(a) *Letulle* v. *Scofield* (1940), 308 U.S. 415, 84 L. ed. 355. This Court found it unnecessary to consider petitioner's contentions that Court of Appeals erred in deciding case on a ground not raised by pleadings, etc., because "the petitioner cannot complain, as the judgment must be affirmed" on a different ground, saying: "a respondent or an appellee may urge any matter appearing in the record in support of a judgment." This Court did not increase the judgment over the amount found due by the Court of Appeals, as respondent had not there filed a cross-appeal; and ruled:

> "The judgment of the Circuit Court of Appeals is affirmed and the cause is remanded to the District Court with directions to proceed in accordance with the opinion and mandate of the Circuit Court of Appeals."

(b) *Helvering* v. *Pfeiffer* (1937), 302 U.S. 247, 251, 82 L. ed. 231, applies the rule to a decision of the Board of Tax Appeals,— "while a decision below may be sustained, without a cross-appeal, although it was rested upon a wrong ground, see Helvering v. Gowron, an appellee cannot without a cross-appeal attack a judgment below."—In *Helvering* v. *Gowron* (1937), 302 U.S. 238, 245, 82 L. ed. 224, 230: "In the review of judicial proceedings, the rule is settled that if the decision below is correct, it must be affirmed, although the lower court relied upon a wrong ground or gave a wrong reason."

(c) In *Zelinger* v. *Uvalde Rock Asphalt Co.* (Cir. 10—1963), 316 F. 2d 47, "after directing a verdict for Uvalde, * * * the trial court granted Zelinger's motion to reduce the judgment * * * Uvalde did not cross-appeal from the court's action on this motion, and consequently the judgment in this respect became final."

(d) *Canter* v. *American Insurance Co.* (1830), 3 Pet. 307, 7 L. ed. 688, held that "the question of damages is not open before this Court," because the lower court's decree was "a virtual denial of damages," which adverse decree was final, unless appealed from.

(e) *Schildhauer* v. *Moe* (Cir. 2 1963), 319 F. 2d 587, where injunction was granted with condition that certain defense should not be later asserted; Court held reversal of decree was not proper

LIMITATIONS—NOT A FEDERAL QUESTION

This is a stockholder's derivative action, filed in Federal court only because of diversity of citizenship.

In the 1957 decisions in *Swanson* v. *Traer,* 354 U.S. 114, 1 L. ed. 2d 1221, 77 S. Ct. 116, and the companion case of *Smith* v. *Sperling,* 354 U.S. 91 (text 95), 1 L. ed. 2d 1205 (text 1210), 77 S. Ct. 1112, 68 ALR 2d 805, it was said:

> Since our decision in Erie R. Co. v. Thompkins, 304 U.S. 64, 82 L. ed. 1188, 58 S. Ct. 817, 114 ALR 1487, the law which governs the merits in these derivative actions is local law.

Even prior to the *Erie* decision, it was the long established rule that Federal courts applied State statutes as construed by the State court, where, as here, the limitation on cause of action is not governed by a fed-

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on contention of appellee, who had not filed cross-appeal. Condition was eliminated, and as so modified was affirmed.

(f) *Tallman* v. *Udall* (Cir.-D.C., 1963), 324 F. 2d 411, did not review ruling of District Court on statute of limitations which had been passed upon therein "adversely to the appellee." In a footnote, that was distinguished with the following language: "The Railway Express case appears to have involved a situation where the lower court did not in fact decide or pass upon the ground sought to be raised on appeal. In this situation the successful litigant may well be able to renew the point on appeal as a basis of affirmance."

(g) *Morley Construction Co.* v. *Maryland Casualty Co.* (1937), 300 U.S. 185, 81 L. ed. 593, held that "the relief remodeled and adapted to the new law and the new facts" ("the facts being found anew and differently") could not be decreed on review, in the absence of a cross appeal. However, "without a cross-appeal, an appellee may 'urge in support of a decree any matter appearing in the record although his argument may involve an attack upon the reasoning of the lower court or an insistence upon matter overlooked or ignored by it.' "

eral statute.[5] Nor since the *Erie* decision in 1938, has there been any different rule except a more binding one to the same effect, viz: the State law as to right of action and limitations applies in stockholder's derivative actions.

Thus, in *Guaranty Trust Co.* v. *York* (1945), 326 U.S. 99, 65 S. Ct. 1464, 89 L. ed. 2079, a diversity case applying state law including state limitations, it was said that a federal court "cannot afford recovery if the right to recover is made unavailable by the State nor can it substantially affect the enforcement of the right as given by the State. * * * if a plea of the statute of limitations would bar recovery in a State court, a federal court ought not to afford recovery." Mr. Justice Frankfurter emphasized the rule in the following words:

> The source of substantive rights enforced by a Federal court under diversity jurisdiction, it cannot be said too often, is the law of the States. Whenever that law is authoritatively declared by a State, whether its voice be the legislature or its highest court, such law ought to govern in litigation founded on that law, whether the forum of application is a State or a federal court and whether the remedies be sought at law or may be had in equity. (326 U.S. 112 text, 89 L. ed. 2088 text).[6]

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[5] *Bell* v. *Morrison* (1828), 1 Pet. 351, 360, 7 L. ed. 174, 178; *Teague R.R.* v. *Blossburg & Corning R.R.* (1873), 20 Wall. 137, 22 L. ed. 331; *Bouserman* v. *Blunt* (1893), 147 U.S. 647, 13 S. Ct. 466, 37 L. ed. 316; *Campbell* v. *Haverhill* (1895), 155 U.S. 610, 15 S. Ct. 217, 39 L. ed. 280.

[6] See also *Ragan* v. *Merchants Transfer & Warehouse Co.* (1949), 337 U.S. 530, 69 S. Ct. 1233, 93 L. ed. 1520; and *Wells* v. *Simonds Abrasive Co.* (1953), 345 U.S. 514, 73 S. Ct. 856, 97 L. ed. 124.

There has been no dispute about the fact that the applicable limitations here is the Florida three-year statute; and it appears plain that the Court of Appeals (346 F. 2d 645) correctly applied the law of the Florida state courts on this issue.

NO RIGHT TO INITIAL DECISION BY SUPREME COURT

No original jurisdiction is vested in this Court to review and interpret the Natural Gas Act, in the way the individual Petitioner desires.

As has been pointed out, and as affirmatively and fully shown by the Record, neither the Petitioner nor the Respondents have had any adverse decision as to any individual rights under the Natural Gas Act or the Federal Power Act or even under any opinion of the Federal Power Commission. Indeed, neither the District Court nor the Court of Appeals made any ruling thereon. Both the District Court and Court of Appeals' decisions relate to dismissal of plaintiff's action —the District Court ruling the dismissal was proper on either theory of plaintiff, one theory of tortious conduct being barred by limitations, and the other theory of unjust enrichment to accrue possibly in the future upon the finality of a Federal Power Commission decision, if rendered in a certain way, being premature;—and the Court of Appeals affirming the dismissal because the entire case was barred by limitations.

It is not perceived how the Federal Power Act, 16 USC 824g, cited by Petitioner, can be involved. No party to this case is in anywise doing any act, and has not done any act, subject to that statute. It simply has no bearing—but the basic point here is that no interpretation or ruling thereon can be found in either Court's ruling in this case.

Also, the only Natural Gas company in this case is Florida Gas Transmission Co. (former name: Houston Texas Gas and Oil Corporation), a Delaware corporation, to whom the certificate of public convenience and necessity to construct and operate the Louisiana to Florida portion of the gas pipeline (Texas to Florida) was issued by Federal Power Commission on Dec. 28, 1956, Opinion No. 301, 16 FPC 118. No ruling thereon was made by the District Court or by the Court of Appeals herein.

Nor is any party in this case, except Florida Gas Transmission Co., a party to the subsequent proceedings mentioned by Petitioner, in which Opinion 431 (June 8, 1964), 431-A (August 5, 1964), and 431-B (October 2, 1964) were rendered subsequent to the Judgment of Dismissal herein by the District Court. Judicial Review of those three 1964 Federal Power Commission opinions is now in progress in the U. S. Court of Appeals, Fifth Circuit.[7]

The entire Petition for Certiorari, pages 10 to 19, purportedly setting forth "Reasons for Granting the Writ," is under sub-headings:

(p. 10) "1. Petitioner's claims are an essential ingredient of the regulatory scheme of the Natural Gas Act and the Federal Power Act."

(p. 13) "2. The decision below effectively defeats the policy of the Natural Gas Act and the Federal Power Act * * *."

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[7] Petition for Certiorari (page 7 note) states:

"Petitions to review these decisions are pending in the Court below."

Also, Opinion No. 301 was involved in *Florida Economic Advis. Council* v. *Federal Power Commission* (CA-DC 1958), 251 F. 2d 643, cert. den. 5/19/58, 356 U.S. 959, 2 L. ed. 2d 1066, 78 S. Ct. 996.

Those assertions, it is respectfully submitted, are capricious, and are not supported by the Record or any portion of it.

Furthermore, no such decision or ruling has been made by the Court of Appeals herein (or the District Court).

Neither is there any merit or substance to Petitioner's contention, (p. 13): "2. The decision below * * * misapplies Florida state law." Specific Florida Statute and specific decisions of Florida state courts are cited in the opinion of the Court of Appeals and support the conclusion that the cause of action, or causes of action, if any, set forth in the Second Amended Complaint are barred by the Florida limitations, and that the District Court's judgment of Dismissal properly was affirmed.

CONCLUSION

It is respectfully submitted that no valid reason exists for the exercise of the discretion by this Court involved in the granting of any petition for certiorari, and that the petition herein should be denied.

Respectfully submitted,

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NOVEMBER 10, 1965.

SUBJECT INDEX

Page

Opinions below 1

Statement of the case 2

Reasons for denying the writ 3

I

A. There is no important federal question involved in the dismissal of the complaint below. Such dismissal involves nothing more than a determination of the applicability of a state statute of limitations 3

B. There is no important state question which has been decided in a way in conflict with applicable state law in the dismissal of the complaint below 3

No federal question is presented 3

The state law of limitations was decided correctly 6

Conclusion 7

II

The modification of the District Court's decision by the Court of Appeals does not depart from the accepted and usual course of judicial proceedings so as to call for exercise of this Court's supervisory power 7

Conclusion 12

Certificate of Service 13

TABLE OF AUTHORITIES

CASES

	Page
Brownell v. City of St. Petersburg, 128 F. 2d 721 (5th Cir. 1942)	4, 7
Calhoun County, Fla. v. Roberts, 137 F. 2d 130, (5th Cir. 1943)	10
Commercial National Bank in Shreveport v. Parsons, 144 F. 2d 231 (5th Cir. 1944)	9, 10
Cristiani v. City of Sarasota, 65 So. 2d 878 (Fla. 1953)	7
Guaranty Trust Co. v. York, 326 U.S. 99 (1945)	4
R. O. Holton & Co. v. Hull, 140 Fla. 687, 192 So. 229 (1939)	6, 7
Johnson v. McKinnon, 54 Fla. 221, 45 So. 23 (1907)	11
Lang v. Patent Tile Company, Inc., 216 F. 2d 254 (5th Cir. 1954)	12
LeTulle v. Scofield, 308 U.S. 415 (1940)	9
Malone v. Meres, 109 So. 677 (Fla. 1926)	11
McDow v. Louisiana Southern Ry. Co., 219 F. 2d 650 (5th Cir. 1955)	5
Otis & Co. v. Pennsylvania R. Co. (ED Pa. 1945), 61 F. Supp. 905, affirmed 155 F. 2d 522 (3rd Cir. 1946)	5
Regents of University System of Georgia v. Carroll, 338 U.S. 586 (1950)	5
Ross v. Stanley, 346 F. 2d 645 (5th Cir. 1965)	1, 2, 3, 4, 6, 8, 9
Royal Indemnity Co. v. Knott, 136 So. 474 (Fla. 1931)	6, 7

Page

State v. Sullivan, 95 Fla. 191, 116 So. 255 (1928).... 11

Sunray Mid-Continent Oil Co. v. Federal Power Commission, 364 U.S. 137 (1960)..... 5

Swanson v. Traer, 354 U.S. 114 (1957)..... 4

T.I.M.E. Inc. v. United States, 359 U.S. 464 (1959).. 5

Town of Miami Springs v. Lawrence, 102 So. 2d 143 (Fla. 1958) 6

Tyler Gas Service Co. v. United Gas Pipe Line Co., 217 F. 2d 73 (5th Cir. 1954)..... 5

United States v. Reid, 251 F. 2d 691 (5th Cir. 1958).. 7

STATUTES

Florida Statutes Annotated, Section 95.11 (5)..... 4

OTHER

United States Supreme Court Rule 19(b), 28 U.S.C.A. 3

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

NO. 659

FRANK ROSS,

Petitioner,

vs.

F. E. STANLEY, et al.,

Respondents.

BRIEF FOR RESPONDENT HARBERT CONSTRUCTION CORPORATION IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

We submit this brief for respondent Harbert Construction Corporation, one of several defendant-appellees below, in opposition to the petition of Frank Ross, plaintiff-appellant below, for a writ of certiorari to review the judgment of the Court of Appeals for the Fifth Circuit of June 1, 1965 and order denying rehearing of July 13, 1965.

Opinions Below

The opinion of the District Court, Middle District of Florida (R 127)* has not been printed. The opinion of the Court of Appeals, Fifth Circuit, is reported at 346 F. 2d 645.

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*Citations to pages of the record below are prefaced by the letter "R."

Statement of the Case

This case was instituted by complaint filed August 3, 1962 (R 15), which complaint was later amended and refiled as a "Second Amended Complaint" on February 6, 1963 (R 44). The nature of the case is a derivative stockholder's suit which was brought in the District Court on the sole basis of diversity of citizenship and jurisdictional amount (R 44).

A clear and succinct statement of the essential facts in this case appears in Chief Judge Tuttle's opinion for the Court of Appeals (see 346 F. 2d 646-649), and we shall not spell out the facts nor detail the pleadings here. As to the pleadings, it is sufficient to say here that the pleading of petitioner which was tested below was his "Second Amended Complaint," referred to hereinafter simply as "the complaint." It occupies forty pages of the printed record (R 44-83) and involves a great multiplicity of allegations of fact, conclusions of law and characterizations of rights.

In the proceedings below, the respondents filed various motions (R 119-127), including motions to dismiss based upon failure to state a claim upon which relief can be granted and upon the bar of the statute of limitations.

The District Court on September 30, 1963, entered an order dismissing the complaint (R 127). In its dismissal opinion, the District Court characterized the complaint as being "based upon two theories of recovery" (R 128). The Court never reached the question of whether these theories, either separately or together, constituted the statement of a cause of action. It merely found that the claim for damages was barred by limitations and that the claim of unjust enrichment, as theorized in the complaint, was premature.

From this order of dismissal the petitioner appealed

(R 134). When he did so, he appealed the entire order (with an exception not here relevant), specifically claiming that the District Court "erred in holding the claim for unjust enrichment to be premature" (R 135).

On appeal, the Court of Appeals for the Fifth Circuit held that petitioner's claim for breach of fiduciary duty and his claim for unjust enrichment were one and the same, and that the entire lawsuit was barred by limitations. *Ross v. Stanley,* 346 F. 2d 645 (5th Cir. 1965).

Petitioner has now filed his Petition for Writ of Certiorari, which we oppose with the reasons and authorities set out hereinbelow.

REASONS FOR DENYING THE WRIT

We submit that the said Petition makes no showing of special and important reasons which call for an exercise by the Supreme Court of its sound judicial discretion, and that none of the reasons set out in United States Supreme Court Rule 19(b) is present in this case.

I

A. There is no important federal question involved in the dismissal of the complaint below. Such dismissal involves nothing more than a determination of the applicability of a state statute of limitations.

B. There is no important state question which has been decided in a way in conflict with applicable state laws in the dismissal of the complaint below.

No federal question is presented. This case is a stock-

holder's derivative suit, filed in federal court only because of diversity of citizenship.

The law has long been clear that such suits are governed by local law. *Swanson v. Traer,* 354 U.S. 114 (1957). This rule extends to questions of the applicable statute of limitations. *Guaranty Trust Co. v. York,* 326 U.S. 99 (1945).

Throughout this case in the courts below, the parties have been in agreement that the three-year statute of limitations imposed by Section 95.11(5), Florida Statutes, is determinative of the timeliness of petitioner's complaint. The Court of Appeals, in its opinion below in this case, observed,

> ". . . The trial court expressly ruled, and the parties both concede in this Court, that the Florida three-year statute of limitations is available as a defense if it applies under the pleaded facts." *Ross v. Stanley,* 346 F. 2d 645, 648 (5th Cir. 1965).

The only question in the case below was as to the time at which the period of limitations, under Florida law, began to run.

The Court of Appeals said on this point,

> "All parties seem to agree that 'limitation never commences to run until the time when the plaintiff could first have maintained his action to a successful result.' *Brownell v. City of St. Petersburg,* 5 Cir., 1942, 128 F. 2d 721, 724. . . ." Ibid.

The Court, through Chief Judge Tuttle, then proceeded to find that, however many ways petitioner may have stated his claim, he really had stated only one claim; that he could have maintained an action on his stated claim in November, 1958, and that his claim was therefore barred at the time his complaint was filed on August 3, 1962. Id. at 649.

Before going further into how the Court of Appeals decided the time at which the Florida period of limitations began to run and why its construction of state law was correct, we turn to petitioner's efforts to graft some element of federal question onto this question of purely local law.

The petitioner takes the position that his claims are "an essential ingredient of the regulatory scheme of the Natural Gas Act and the Federal Power Act" (Petition for Writ, p. 10), and that the decision below "defeats the policy" of those laws (Petition for Writ, p. 13).

We submit that neither the Natural Gas Act nor the Federal Power Act confers any private rights on petitioner and none are claimed in his complaint. It is true that his stockholder's derivative suit is related to, and apparently was prompted by, a proceeding of the Federal Power Commission, but neither the Acts referred to nor any proceeding of the Commission can confer any private rights upon petitioner.*

Indeed, neither the District Court nor the Court of Appeals attempted to make any decision as to the merits of petitioner's rights. Thus, even if one were to take at face value petitioner's contention that his claims are essential to the "regulatory scheme" of certain federal acts which by their terms confer no private rights upon him—a doubtful

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*The principles (1) that no private cause of action is created by a federal statute in the absence of a specific provision therefor in the statute itself, and (2) that rulings of administrative bodies do not create private rights, are supported by the following authorities:

(1) Regents of University System of Georgia v. Carroll, 338 U.S. 586 (1950).
(2) T.I.M.E. Inc. v. United States, 359 US. 464 (1959).
(3) Sunray Mid-Continent Oil Co. v. Federal Power Commission, 364 U.S. 137 (1960).
(4) Tyler Gas Service Co. v. United Gas Pipe Line Co., 217 F. 2d 73 (5th Cir. 1954).
(5) McDow v. Louisiana Southern Ry. Co., 219 F. 2d 650 (5th Cir. 1955).
(6) Otis & Co. v. Pennsylvania R. Co. (ED Pa. 1945), 61 F. Supp. 905, affirmed 155 F. 2d 522 (3rd Cir. 1946).

proposition at best—there has been no determination of federal rights in this case and no federal question is presented at all. What the Court of Appeals decided was that, whatever petitioner's rights might be in a timely case, he cannot maintain an action that, under the law clearly applicable to the question of timeliness, is barred by limitations.

The state law of limitations was decided correctly. In holding that petitioner's entire claim was barred by the Florida statute of limitations, the Court of Appeals, through Chief Judge Tuttle held,

> "The circumstances alleged to have existed at the time the contracts were executed in November, 1958, unquestionably would have supported a bill in equity for an accounting based on a breach of the fiduciary relationship resulting in injury, the damages from which could not be computed until a later date. Such an action for accounting from allegedly faithless fiduciaries is fully recognized in Florida. R. O. Holton & Co. v. Hull, 1939, 104 Fla. 687, 192 So. 229. In Royal Indemnity Co. v. Knott, Fla. 1931, 136 So. 474, 478, the Supreme Court of Florida said '[a]nd it may be said generally that whenever there is a fiduciary relation such as that of trustee, agent, executor, etc., the right to an accounting in equity is undoubted. The right in such cases is based upon the substantive equity of trusts which jurisdiction equity always had. 1 Ency. Pl. & Pr. 96.' In point of fact, this is precisely the suit that the plaintiff has brought in this case." *Ross v. Stanley,* supra at 649.

Petitioner claims that no harm had been done to Florida Gas Company and Florida Gas Transmission Company in 1958. For this proposition he depends upon *Town of Miami Springs v. Lawrence,* 102 So. 2d 143 (Fla., 1958), wherein each flooding caused by a dike, the construction of which was not of itself a wrong, was held to be a new trespass, and

United States v. Reid, 251 F. 2d 691 (5th Cir. 1958), involving another special situation—the slow development of tuberculosis as a result of negligent medical advice.

The authorities depended upon by petitioner do not represent the general rule of Florida law, which is applicable to this case. The general rule is that the statute begins to run at the first moment that a cause of action accrues. *Cristiani v. City of Sarasota,* 65 So. 2d 878 (Fla., 1953); *Brownell v. City of St. Petersburg,* 128 F. 2d 721 (5th Cir. 1942). Since an action for accounting (or a correlative remedy—declaratory relief, injunction, the affixing of a constructive trust, etc.) could have been brought at the time the 1958 contracts were let, the statute began to run no later than at that time. *R. O. Holton & Co. v. Hull,* 140 Fla. 687, 192 So. 229 (1939); *Royal Indemnity Co. v. Knott,* 136 So. 474 (Fla., 1931).

Conclusion: We submit that the Court of Appeals has not decided any federal question at all, and that it has decided a state question—a question of application of the Florida statute of limitations—in a way not in conflict with applicable state law. There is nothing new or novel about the decision. Of course the subject matter is important to the parties, but the decision sets no precedent. It merely reaffirms the existing law that, in a diversity action in a United States District Court, the limitation to be applied is determined under state law.

II

The modification of the District Court's decision by the Court of Appeals does not depart from the accepted and usual course of judicial proceedings so as to call for exercise of this Court's supervisory power.

Petitioner argues that the District Court, by dismissing petitioner's "profit" claim without prejudice, "preserved petitioner's right to renew his action after the FPC's decision of the rate base proceeding becomes final." He objects that, "although only petitioner appealed, the Court of Appeals took away this right by directing that the claim be dismissed with prejudice" (Petition for Writ, p. 19).

We submit that the order of the Court of Appeals was properly within the role of an appellate court and did not depart from the accepted course of judicial proceedings. The District Court did not "preserve" to the petitioner any right to assert his unjust enrichment theory of recovery at some future date. It did not even reach the question of whether such theory stated a cause of action. It merely found the only claim that was, in its opinion, then maintainable to have been barred by limitations. The Court of Appeals determined that petitioner in fact had stated only one claim, and not two, and that his one claim was barred by limitations so that the entire litigation was due to be put at peace.

This occurrence could have come as no shock to petitioner. All the respondents were held by the District Court to have pleaded the bar of limitation to the entire complaint, and petitioner appealed the entire order and judgment of the District Court (R 134-135).

In such posture, the case was ripe for the Court of Appeals to construe the real nature of petitioner's claim. Chief Judge Tuttle, after a detailed analysis of the complaint, found petitioner's two claims to be "absolutely equivalent." *Ross v. Stanley,* supra at 650. Judge Simpson, concurring, said,

> "My agreement with the opinion prepared by Chief Judge for the Court is complete and without reservation."

* * *

"First, I would emphasize that the Complaint here sets forth only one claimed breach of legal duty; only one 'claim' or 'cause of action', not two; only one basis for recovery. The only duality I can discover is in theories of recovery and computation of damages.

"It is sophistry to assert the existence of two claims, one for 'breach of trust' and a separate claim for 'unjust enrichment', giving rise to an equitable right to an accounting.[1]"

* * *

"Our holding, in summary, is: that only one claim, not two, existed; that all, not part of it, was time-barred under the Florida statute when suit was brought; and that the district court's attempted dichotomy was impermissible, as without legal or factual basis.

"The judgment below was brought here on appeal, not just part of it, as Judge Rives argues, and the majority opinion simply directs that that judgment, now under our jurisdiction on appeal, be modified below to meet these views. Upon remand the suit will stand dismissed with prejudice, not with one portion of an indivisible whole dismissed with prejudice, and the remainder thereof dismissed without prejudice, as the district judge incorrectly attempted.[4]" [Footnotes not repeated here.] *Ross v. Stanley,* supra at 651-652.

There was no obligation on the part of respondents to cross-appeal. The judgment of the District Court was not adverse to them, and it guaranteed nothing to petitioner. On appeal, respondents could properly urge all matters appearing in the record in support of a judgment (*LeTulle v. Scofield,* 308 U.S. 415 (1940), and the Court could take notice of errors against the respondents. *Commercial National Bank in Shreveport v. Parsons,* 144 F. 2d 231, 240 (5th Cir. 1944); rehearing denied 145 F. 2d 191; cert. denied 323 U.S. 796.

The case just cited involved an equitable accounting. The point presently in question was treated precisely in the opinion of the Court of Appeals for the Fifth Circuit in that case:

> "Because it did not take a cross-appeal from a judgment reversed on direct appeal, the dissenting opinion would perpetuate an error against appellee committed on the original trial of this case. None of the authorities cited in the dissenting opinion supports this contention. There was but one final judgment in this case; the others were interlocutory. The appellant saw fit to appeal from the entire judgment, not from items or portions thereof as it might have done. Also, under Rule 75 (d), Rules of Civil Procedure, 28 U.S.C.A. following section 723c, it designated the entire record, proceedings, and evidence in the court below for inclusion in the record on appeal. Why should an appellate court, remanding for retrial an action involving an intricate equitable accounting, not notice a plain error against the appellee? Courts sit to do justice between the parties, not merely to decide points in a tilt between lawyers. We are not enlarging the appellee's rights under the judgment appealed from; we are reversing and annulling the judgment at the instance of appellant." *Commercial National Bank in Shreveport v. Parsons,* supra at 240.

The point was also discussed in another Fifth Circuit opinion, *Calhoun County, Fla. v. Roberts,* 137 F. 2d 130, 132 (5th Cir. 1943), as follows:

> "We acknowledge the general rule that a cross appeal or cross certiorari is necessary to enable an appellee or respondent in certiorari to ask the appellate court to reverse the part of a decree which is unfavorable to him. Morley Construction Co. v. Maryland Casualty Co., 300 U.S. 185, 57 S.Ct. 325, 81 L.Ed. 593. The rule was applied even to an admiralty decree, the appeal from which is a de novo trial, in The Maria Martin

(Martin v. Northern Transportation Co.), 12 Wall. 31, 20 L.Ed. 251. But in another case in admiralty, Langnes v. Green, 282 U.S. 531, 51 S.Ct. 243, 75 L.Ed. 520, by way of considered dictum, it was declared that the rule is one of the practice generally followed, limiting the rights of litigants, but not a restriction on the power of the appellate court to see that justice is done. We are reversing the conclusion of law of the district judge that the recourse is against the County and we esteem it necessary to justice to reopen his conclusion of law that there was no recourse against any bond proceeds in the balance of the Construction Fund. We act on our own motion, and not at the instance of appellee. We have disturbed no fact finding of the district court (as was done in the Morley Construction Company case), but differing only on the law, we propose to apply in all its consequences the law as we see it. We hold we have the power, without cross appeal, to do this."

The action of the Court of Appeals in causing the entire complaint to be dismissed with prejudice is also clearly correct when scrutinized from a jurisdictional point of view. Under the applicable state law, "jurisdiction" is defined as "the power of a court to hear and determine a cause" *(State v. Sullivan,* 95 Fla. 191, 116 So. 255, 263 (1928), and as "the right to adjudicate concerning the subject-matter in the given case." *Johnson v. McKinnon,* 54 Fla. 221, 45 So. 23, 26 (1907). It has also been stated that, "technically, jurisdiction is the power to hear and determine the subject-matter in controversy between the parties to a suit." *Malone v. Meres,* 109 So. 677, 684 (Fla. 1926). Thus in order to have jurisdiction over a controversy, the court must have the power or authority to adjudicate or determine the controversy between the parties.

If the statute of limitations was properly pleaded in bar of petitioner's whole claim, then the District Court had no further jurisdiction to deal with the subject matter, and any

comments that it made about a separate claim of unjust enrichment should have been noted and corrected on appeal. *Lang v. Patent Tile Company, Inc.*, 216 F. 2d 254 (5th Cir. 1954).

The Court of Appeals for the Fifth Circuit held, in the case just cited (opinion by Judge Rives),

> "Defects of the District Court's jurisdiction which are apparent on the face of the record must be noted by this Court *sua sponte*. Mansfield C. & L.M. Railway Co. v. Swan, 111 U.S. 379, 382, 4 S.Ct. 510, 28 L.Ed. 462; Clark v. Paul Gray, Inc., 306 U.S. 583, 588, 59 S.Ct. 744, 83 L.Ed. 1001; Fennell v. John Hancock Mutual Life Ins. Co., 5 Cir., 177 F. 2d 737, 738; Riley v. Titus, 89 U.S. App. D.C. 79, 190 F. 2d 653, 655." *Lang v. Patent Tile Company, Inc.*, supra at 254.

On the basis of these principles, we submit that, if one of petitioner's theories was not in fact a claim, the appellate court had the power and the duty, without cross appeal, to note the error and to deal with it. Furthermore, if the error involved a controversy or a facet of the cause that was beyond the jurisdiction of the trial court, the appellate court was obligated to note the point *sua sponte*. Any other course of judicial administration would have been manifestly inefficient and unjust.

CONCLUSION

For the reasons given, respondent respectfully urges that the petition for writ of certiorari be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have mailed copies of this brief, with air mail postage prepaid, to William E. Haudek, Esq., Pomerantz, Levy, Haudek & Block, Esqs., 295 Madison Avenue, New York, N. Y., 10017, and Charles Jay Hardee, Jr., Esq., Hardee, Ott & Hamilton, Esqs., 101 East Lafayette St., Tampa, Florida, on this 5th day of November, 1965.

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1965

No. 659

FRANK ROSS,

Petitioner,

vs.

F. E. STANLEY, ET AL.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIFTH CIRCUIT

BRIEF IN OPPOSITION FOR RESPONDENTS MIDWESTERN CONSTRUCTORS, INC., WALCO ENGINEERING & CONSTRUCTION CO. AND MIDWESTERN-WALCO CONTRACTORS

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INDEX

Opinions Below 1
Jurisdiction 2
Questions Involved 2
Statute Involved 2
Statement of the Case 2
Argument 4
1. There Is No Question of Federal Law Involved 5
2. The Decision Below Is Clearly Correct 7
3. There Was No Departure from the Accepted and Usual Course of Judicial Proceedings 8
Conclusion 10

Citations

STATUTES

Florida Statutes, 1963, Section 95.11(5) 2

CASES

Brophy v. *Cities Service Co.*, 31 Del. Ch. 241, 70 A.2d 5, 8 (1949) 6
Calhoun County, Fla. v. *Roberts*, 137 F.2d 130 (CC 5, 1943) 10
Cristiana v. *City of Sarasota*, 65 So.2d 878 (S. Ct. Fla. 1953) 7-8
Dorchy v. *Kansas*, 264 U.S. 286, 289, 68 L. ed. 686, 689 10
Gast v. *Engle*, 85 A.2d 403 8
Geddes v. *Anaconda Copper Mining Co.*, 254 U.S. 590, 599 6
Grable v. *Nunez*, 64 So.2d 154 ..... 7, 8
Guth v. *Loft, Inc.*, 23 Del. Ch. 255, 5 A.2d 503, 510 (Del. S. Ct. 1939) 6
Hayes v. *Belleair Development Co.*, 162 So. 698 (1935) 7

Helvering v. *Lerner Stores*, 314 U.S. 463, 466, 86 L. ed. 343, 346 8
Hormel v. *Helvering*, 312 U.S. 552, 556 10
Irving Trust Co. v. *Deutsch*, 73 F.2d 121 (CCA 2) 6
Jackson v. *Smith*, 254 U.S. 586 5
Langnes v. *Green*, 282 U.S. 531, 538 ..... 8, 10
Pepper v. *Litton*, 308 U.S. 295, 306, 311 6
Stelos Co. v. *Hosiery Motor-Mend Corp.*, 295 U.S. 237, 239, 79 L. ed. 1415, 1416 8-9
Story Parchment Co. v. *Paterson P. Paper Co.*, 282 U.S. 555, 560, 75 L. ed. 544, 547 8
Tampa Electric Co. v. *Ferguson*, 118 So. 211 (S. Ct. Fla. 1928) 8
Texarkana v. *Arkansas Louisiana Gas Co.*, 306 U.S. 188, 198, 83 L. ed. 598, 605 8
United R. & Electric Co. v. *West*, (1930) 280 U.S. 234, 74 L. ed. 390, 50 S. Ct. 123 10
United States v. *American R. Express Co.*, 265 U.S. 425, 435, 68 L. ed. 1087, 1093 8
Wayne v. *New York Life Ins. Co.*, 132 F.2d 28, 36 (CC 8, 1942) 10

AUTHORITIES

3 Scott on Trusts, Section 462.4 8

COURT RULE

Rule 24(2)(c), Fifth Circuti Court of Appeals 9

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OPINIONS BELOW

The opinion of the District Court (R. 127) is not yet reported. The opinion of the Court of Appeals for the Fifth Circuit (Pet. App. A) is reported at 346 F.2d 645.

JURISDICTION

The District Court's jurisdiction was invoked on the sole ground of diversity of citizenship and this court's review is sought under 28 U.S.C., Section 1254(1).

QUESTIONS INVOLVED

Petitioner's Statement of the Questions involved does not fairly state the issues. The questions can be quite simply stated as follows:

1. In a case based solely on diversity of citizenship, did the Circuit Court of Appeals err in the application of the Florida Statute of Limitations under Florida law to the case stated on the face of the Complaint?

2. Where an entire equitable case and record is before the Circuit Court of Appeals on the pleadings, did the court have the power to determine the question of law as to the nature of the case stated in the Complaint and to dispose of the case in accordance with such determination?

STATUTE INVOLVED

Section 95.11(5), Florida Statutes, 1963 (Pet. App. D, page 29a) (Florida's three year statute of limitations).

STATEMENT OF THE CASE

This is a stockholders' derivative suit filed in August of 1962 by one stockholder of Florida Gas Company, a Florida corporation, against the directors of the corporation and all those who joined with them, alleging all defendants to be "fiduciaries" owing the same duty to the stockholders. The breach of duty alleged was that in November, 1958, the

directors awarded contracts to the construction and engineering defendants, including these respondents, despite "foreseeable injury" to the corporation which would result therefrom. It asserted that all "defendants are jointly and severally liable for the profits realized by each of them and for the damages sustained and to be sustained" and demanded an equitable accounting.

These respondents (and others) filed a Motion to Dismiss on the specific ground (among others) that the Complaint showed on its face that it was barred by Florida's three year statute of limitations or laches.

The District Court granted the motions and in its Order (R. 127) recited that the Second Amended Complaint (which consisted of only one count) was based on two theories of recovery and that one, for damages, was barred by the Florida three year statute of limitations and that the other, "the claim for unjust enrichment cannot accrue, *if at all*," until the FPC rate base proceeding was concluded and that the claim was premature. The court dismissed the cause without prejudice to the right of plaintiff to bring a further action for relief for restitution and unjust enrichment at the termination of the FPC proceeding. The District Court specifically did not pass on various other grounds urged which respondents did not and have not waived.

Plaintiff in his Notice of Appeal (R. 134) appealed from the above order "and from each and every part of such order." His Statement of Points on Appeal (R. 135) and the specification of errors in his brief assigned as error:

> "1). . . holding the claim for breach of fiduciary duty barred by the statute of limitations.
>
> 2). . . holding the claim for unjust enrichment to be premature.

3)... dismissing the action on the foregoing grounds.

4)... dismissing the Second Amended Complaint on the foregoing grounds."

No cross appeal was filed by any respondent.

The Appellate Court, considering the matters thus put in issue by plaintiff, concluded that the Complaint stated only one case against the respondents and that the whole claim was barred by the statute of limitations and affirmed the judgment of the trial court "to the extent that it dismissed the claim as being barred by the statute of limitations" and remanded it to permit the remainder of the judgment to be amended "in a manner not inconsistent with this opinion."

Referring to the statute of limitations ruling, petitioner in his Petition (p. 6) asserts that respondents have conceded that uncertainty of profits and damages would have prevented the institution of suit in November, 1958. Such statement is totally untrue as to these respondents and unavailing as to the rest.

The FPC decisions have no bearing on the deciding issue of the case and are therefore not discussed under this section of the brief.

ARGUMENT

The issue in this case is extremely narrow and no amount of clever obfuscation by petitioner can convert it into one warranting review by this court. Of the numerous statutes of limitations of the fifty states, we are concerned with only one statute of one state and only in one particular set of circumstances. The petitioner does not question the fact that the state statute of limitations is controlling; he is merely seeking to avoid that statute by attempting to

inject two Federal statutes into the case. These Federal statutes were clearly collateral and were not the basis of any rights sued upon. The lower court did not interpret such statutes and they cannot possibly be a material factor in the case. Clearly there is *no* question of Federal law, much less an important question, and the Appellate Court has correctly decided the matter and rightly and properly exercised its power in arriving at its decision.

1. There Is No Question of Federal Law Involved.

No Federal question exists in this case. Federal jurisdiction exists solely because of diversity and there is no dispute but what state law is determinative of the existence and nature of a claim, if any, and the statute of limitations applicable to it. The real gravamen of the case is the alleged breach of the corporate directors' duty not to so deal with their own corporation so as to be able to make a profit for themselves. Cases cited at previous stages of this case clearly show that the alleged *wrong* is the *self-dealing* which *might* be contrary to the *cestui que* trust. The clearest exposition of the theory proceeded upon is set out in *Jackson* v. *Smith,* 254 U.S. 586, which dealt with a receiver's purchasing property over which he had authority and the court said:

> "When he agreed with Smith and Wilson to join in the purchase if Wilson should become the successful bidder, he placed himself in a position in which his personal interests *were, or might be,* antagonistic to those of his trust. *Michoud* v. *Girod,* 4 How. 503, 552, 11 L.ed. 1076, 1098. It became to his personal interest that the purchase should be made by Wilson for the lowest possible price. The course taken was one which a fiduciary could not legally pursue. *Magruder* v. *Drury,* 235 U.S. 106, 119, 120, 59 L.ed. 151, 156, 35 Sup.Ct.Rep. 77. And others who knowingly join a fiduciary in such an enterprise likewise become jointly

and severally liable with him for such profits . . ." (Emphasis supplied).

See also: *Irving Trust Co.* v. *Deutsch,* 73 F.2d 121 (CCA 2); *Guth* v. *Loft, Inc.,* 23 Del. Ch. 255, 5 A.2d 503, 510 (Del.S.Ct. 1939); *Brophy* v. *Cities Service Co.,* 31 Del. Ch. 241, 70 A.2d 5, 8 (1949); *Pepper* v. *Litton,* 308 U.S. 295, 306, 311; *Geddes* v. *Anaconda Copper Mining Co.,* 254 U.S. 590, 599.

All of these cases deal with self-dealing of one form or another. None of them dealt with or required any rights founded on an administrative ruling. If the alleged facts concerning the relationship of the parties and the contracts be true, leaving out the FPC proceeding altogether, they alone set out the real cause of action.

The allegations concerning the FPC proceeding are purely window dressing, probably designedly inserted by appellant's very able lawyers to try to avoid the statute of limitations which had already run. The cause of action, if any, was complete when the directors breached their duty by ratification of the contracts on October 23, 1958, and permitting the contracts to be signed on November 3, 1958. On the signing of the contracts, contractual rights immediately arose in the contracting firms and a constructive trust arose in favor of the corporation and its stockholders as to such rights and the benefits flowing therefrom. The potential FPC proceeding was, at most, only one of the circumstances surrounding the action of the directors. The FPC proceeding might or might not at some future time have some economic effect on the corporation, but the test as has been seen from the cited cases is whether in authorizing or ratifying the contracts in light of all existing circumstances they violated their fiduciary duty.

2. The Decision Below Is Clearly Correct.

There is no conflict between the Appellate Court's decision and applicable state law. The Florida Supreme Court has defined directors of a corporation as being trustees under a constructive trust and subject to statutes of limitations in *Hayes* v. *Belleair Development Co.*, 162 So. 698 (1935), and defined the time for the commencement of the running of the statute of limitations in *Grable* v. *Nunez*, 64 So.2d 154, as:

> "(3) Constructive Trusts are subject to statutes of limitation, and the period of limitation commences to run from the time when the trust came into being, *Hayes* v. *Belleair Development Co.*, 120 Fla. 326, 162 So. 698; *Gast* v. *Engel*, 369 Pa. 137, 85 A.2d 403."

The cases set out in the Appellate Court's decision amply show that an action for equitable accounting will lie in Florida under the alleged circumstances. This action is maintainable as soon as the wrongful act has been done. The cases set out in Section 1 of this argument show that *no loss or damages are necessary* to create the right of action.

The cases cited by petitioner are clearly distinguishable from the true rule governing this case. They all deal with the situation where the wrongful act is committed and there is a delay in the invasion of the plaintiff's rights. This delay in the accrual of the cause of action has been recognized in flooding cases, lateral support cases and delayed explosion cases where the plaintiff's legal rights *are first invaded* at the happening of the subsequent event. This situation is clearly distinguishable from the cases where the wrongful act is completed and *at the same* time the plaintiff's legal rights are immediately invaded although the plaintiff has not yet suffered any substantial loss or damage. In the latter type case the statute of limitations commences to run immediately. See *Cristiana* v. *City of*

Sarasota, 65 So.2d 878 (S.Ct. Fla. 1953). Thus the right of action accrues when the wrongful act is completed and some legal invasion of rights has taken place—however slight—regardless of the time when the consequential damages arise. See *Gast* v. *Engle,* 85 A.2d 403, relied on in *Grable* v. *Nunez, supra;* 3 Scott on Trusts, Section 462.4. Florida recognizes the principle of nominal damages. See *Tampa Electric Co.* v. *Ferguson,* 118 So. 211 (S. Ct. Fla. 1928).

Under the allegations of this case the duty of the fiduciary would be breached when the contracts were signed and created certain contractual gains or advantage in the directors and those associated with them, which, if improper under the circumstances, they should not be permitted to keep. The decision is definitely not in conflict with applicable state law.

3. There Was No Departure from the Accepted and Usual Course of Judicial Proceedings.

Petitioner's contention that the Appellate Court could not modify the lower court's decision to the detriment of the appellant is without merit. The order was one of complete dismissal of the action and the Appellate Court's action was to confirm the action of the lower court and in the process to direct the disposition of the action in accordance with its determination. That the respondent can urge additional grounds, even those overruled in the lower court, in support of the judgment is without question. See *Langnes* v. *Green,* 282 U.S. 531, 538; *Story Parchment Co.* v. *Paterson P. Paper Co.,* 282 U.S. 555, 560, 75 L.ed. 544, 547; *Helvering* v. *Lerner Stores,* 314 U.S. 463, 466, 86 L.ed. 343, 346; *United States* v. *American R. Express Co.,* 265 U.S. 425, 435, 68 L.ed. 1087, 1093; *Texarkana* v. *Arkansas Louisiana Gas Co.,* 306 U.S. 188, 198, 83 L.ed. 598, 605; *Stelos Co.* v.

Hosiery Motor-Mend Corp., 295 U.S. 237, 239, 79 L.ed. 1415, 1416.

The Order of the lower court dealt with the Complaint as being based on two theories and dismissed the entire action, without prejudice to the plaintiff bringing another action for relief on the theory of unjust enrichment after the conclusion of the pending FPC proceeding. The plaintiff appealed from the entire Order (R. 134) and specifically assigned as error in his Statement of Points on Appeal (R. 135) and the Specification of Errors in his brief that the District Court erred in holding that:

> "1. . . the claim for breach of fiduciary duty was barred by the statute of limitations."
>
> "2. . . the claim for unjust enrichment to be premature."
>
> "3. . . in dismissing the action on the foregoing grounds."
>
> "4. . . in dismissing the Second Amended Complaint on the foregoing grounds."

Rule 24(2)(c) of the Fifth Circuit Court of Appeals requires such Specification of Errors and provides:

> "Errors not specified according to this rule will be disregarded; but the court, at its option, may notice a plain error not specified."

The petitioner thus created the issues to be decided in the Appellate Court. To decide whether the court erred in holding that the alleged claim for unjust enrichment was premature, the court necessarily had to go into the allegations of such claim and if actually premature *when* it did accrue. The Appellate Court ruled that the claim in actuality was part and parcel of the single case stated and that the whole case had accrued at such a time that the whole case was barred by the statute of limitations. It necessarily had to dispose of the case in accordance with

its decision. The whole case and the whole record of this equitable action were before it and there could be no question that the court had full power to go into each such issue. See *Langnes* v. *Green,* 282 U.S. 531, 538; *Hormel* v. *Helvering,* 312 U.S. 552, 556; *Wayne* v. *New York Life Ins. Co.,* 132 F.2d 28, 36 (CC 8, 1942); *Calhoun County, Fla.* v. *Roberts,* 137 F.2d 130 (CC 5, 1943); *Dorchy* v. *Kansas,* 264 U.S. 286, 289, 68 L.ed 686, 689.

Even if the exact point had not been put in issue by the petitioner, the law is clear that where the matter is closely related to the subject to the appeal that it is not necessary for appellees to cross appeal in order for the Appellate Court to decide the present questions even though the determination of them would be beneficial to appellees. See *United R. & Electric Co.* v. *West* (1930), 280 U.S. 234, 74 L.ed. 390, 50 S.Ct. 123. It is therefore apparent that this decision was no departure from the accepted and usual course of judicial proceedings, but is an example of the proper exercise of appellate authority.

CONCLUSION

For the foregoing reasons it is respectfully submitted that this Writ of Certiorari should be denied.

Respectfully submitted,

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November 6, 1965

PROOF OF SERVICE

I, David W. Hedrick, one of the attorneys for Midwestern Constructors, Inc., Walco Engineering & Construction Co. and Midwestern-Walco Contractors, some of the respondents herein, and a member of the Bar of the Supreme Court of the United States, hereby certify that on the ..... day of November, 1965, I served copies of the foregoing Brief on Frank Ross, Petitioner herein by mailing a copy in a duly addressed envelope, with air mail postage prepaid to William E. Haudek, Attorney for Petitioner, 295 Madison Avenue, New York, New York, 10017.

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F. E. STANLEY, W. J. BOWEN, HAROLD A. MARTIN, O. PAUL HERZIG, MIDWESTERN CONSTRUCTORS, INC., WALCO ENGINEERING & CONSTRUCTION COMPANY (individually and as joint venturers doing business under the firm name and style of MIDWESTERN-WALCO CONTRACTORS), BARNARD AND BURK PIPELINE ENGINEERING COMPANY, INC., HARBERT CONSTRUCTION CORPORATION, FLORIDA GAS TRANSMISSION COMPANY and FLORIDA GAS COMPANY,

Respondents,

and

JOHN M. HARBERT III, LEON M. PAYNE, THEODORE RINEHART, CHARLES C. BARNARD, JACK S. BURK and PAUL C. WALLACK,

Defendants.

BRIEF OF RESPONDENTS FLORIDA GAS TRANSMISSION COMPANY AND FLORIDA GAS COMPANY OPPOSING PETITION FOR A WRIT OF CERTIORARI

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SUBJECT INDEX

	Page
STATEMENT OF THE CASE	1
ARGUMENT	4
1. The Petition for a Writ of Certiorari should be denied because the Court of Appeals has not decided an important question of Federal law which has not been, but should be, settled by this Court	4
2. The Petition for a Writ of Certiorari should be denied because the Court of Appeals has not decided an important state question in a way in conflict with applicable state law	5
3. The Petition for a Writ of Certiorari should be denied because the decision of the Court of Appeals does not depart from the accepted and usual course of judicial proceedings	8
CONCLUSION	11

LIST OF AUTHORITIES

Cases

Florida Gas Transmission Company, Florida Public Utilities Commission, Petitioners v. Federal Power Commission, Respondent, Nos. 21957, 22089, and 21964	3
FPC Opinion 301, 16 F.P.C. 118 (1956)	2
FPC Opinion 431, 31 F.P.C. 1402 (1964)	3
FPC Opinion 431-A, 32 F.P.C. 518 (1964)	3
Ross v. Stanley, 346 F. 2d 645 (5th Cir. 1965)	4, 5, 6, 9, 10
Town of Miami Springs v. Lawrence, 102 So. 2d 143 (Fla. 1958)	6, 7

Statutes

Fla. Stat. (1963) 95.11(5)	4

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BRIEF OF RESPONDENTS FLORIDA GAS TRANSMISSION COMPANY AND FLORIDA GAS COMPANY OPPOSING PETITION FOR A WRIT OF CERTIORARI

STATEMENT OF THE CASE

In 1956, the Respondents and Defendants were among those who had originated and developed the project of Respondent Florida Gas Transmission Company (Transmission) to bring natural gas from Texas to Florida via a

new transmission line (R 56-61). As an integral part of the project which they presented to the Federal Power Commission (Commission) for its required approval, they disclosed the interrelationships between Transmission and the four engineering and construction firms who are Respondents here (Contracting Firms) (R 92-119). They described to the Commission in detail their proposal that the construction of the facilities would be performed by these very firms, provided their prices were no higher than the going rate for similar work (R 111-114). The Commission approved the project and said:

> "Finally, it appears that the labor necessary for construction of the facilities of Houston Gas will be furnished by three construction companies, the president of each of which is an official and director of Houston Gas and that two of these construction companies own blocks of Houston Gas stock. Furthermore, a member of the firm of engineers which will supervise the construction and operation of the pipeline is also a vice president and director of Houston Gas. While as we have already stated, the cost of the proposed facilities appears to be reasonable, in view of this fact, this cost will be carefully scrutinized in any future proceeding dealing with accounting or rates of Houston Gas." *FPC Opinion 301,* 16 F.P.C. 118 at 142 (1956).

Following the public financing, the project was constructed by the Contracting Firms pursuant to contracts negotiated with them by Transmission and approved by its Board of Directors and the Board of its parent, Florida Gas Company, in October, 1958.

While not contesting the fact that the cost of the facilities thus constructed was entirely reasonable (R 33, 38, 93), the Commission, in 1962, attacked the inclusion in Transmission's rate base of payments to the Contracting

Firms to the extent they represented profits earned by the Contracting Firms (R 53-55). As justification for this action, the Commission asserted what it variously characterized as the application of "an old rule [no-profits-to-affiliates] to new circumstances" or a "new rule for determining whether to exclude profits of affiliates . . . ."[1] This action of the Commission is presently pending in the United States Court of Appeals for the Fifth Circuit on Petition to Review.[2]

Petitioner brought suit in August, 1962, against the Contracting Firms and the directors of Transmission, alleging that the directors committed a breach of their fiduciary duty in approving said contracts in 1958, and that the Contracting Firms were thereby unjustly enriched, since they knew or should have known that the Commission at some later date would remove any profits realized by the Contracting Firms from Transmission's rate base by the application of the Commission's so-called "no-profits-to-affiliates" rule (R 44).

Petitioner's suit was dismissed by the District Court on the grounds that the Florida Statute of Limitations barred Petitioner's action as to any claim arising from a breach of fiduciary duty and that, if Petitioner had a claim for unjust enrichment, that claim was premature because the

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[1] *FPC Opinion 431-A*, 32 F.P.C. 518 at 519, *Petition for Cert.* 82a at 83a (1964).

"We do not object to promoters making a profit on their investment of time, effort and financial resources in a developing pipeline enterprise. . . . What we do object to is the engineering and contracting promoters profiting a second time on contracts between themselves and the organization they are promoting at the expense of the gas consumers." *FPC Opinion 431*, 31 F.P.C. 1402 at 1409, *Petition for Cert.* 30a at 44a-45a (1964).

[2] *Florida Gas Transmission Company, Florida Public Utilities Commission, Petitioners* v. *Federal Power Commission, Respondent*, Nos. 21957, 22089, and 21964, argued on October 20, 1965.

action of the Commission in deleting the profits from rate base was not then final (R 127-31).

The Court of Appeals affirmed the judgment of dismissal but held that the petition asserted only a single cause of action; i.e., one predicated upon a breach of fiduciary duty, and remanded to the Trial Court to allow that Court to amend its judgment accordingly. *Ross* v. *Stanley,* 346 F.2d 645, *Petition for Cert.* 1a (5th Cir. 1965).

ARGUMENT

1. The Petition For A Writ Of Certiorari Should Be Denied Because The Court Of Appeals Has Not Decided An Important Question Of Federal Law Which Has Not Been, But Should Be, Settled By This Court.

Petitioner's argument at Point I of his Petition for a Writ of Certiorari (pp. 10-19) would lead the reader to believe that this was a suit based on the Federal question jurisdiction of the District Court wherein the District Court and the Court of Appeals had been asked to construe the provisions of the Natural Gas Act. However, to the contrary, the jurisdiction of the District Court was invoked on the ground of diversity of citizenship, and the substantive law applicable to this controversy is, and always has been, state law.

Petitioner's cause of action is nothing more or less than a shareholder's derivative action based on a claim that certain directors breached their fiduciary duty to the shareholders of the Corporation. Petitioner's cause of action was dismissed because the Florida Statute of Limitations,[3] which concededly is the applicable statute of limitations,[4] barred his claim. This dismissal was based solely on Flor-

[3] FLA. STAT. (1963) 95.11 (5).
[4] *Ross* v. *Stanley, supra* at 648, *Petition for Cert.* 6a.

ida state law. No interpretation of the Natural Gas Act, the Federal Power Act or any other Federal law was involved in this decision, let alone the ability of the Federal Power Commission to discharge properly its statutory duties. There is thus not only no vitally important question of Federal law for this Court to consider; there is no question of Federal law whatsoever to be settled by this Court.

2. The Petition For A Writ Of Certiorari Should Be Denied Because The Court Of Appeals Has Not Decided An Important State Question In A Way In Conflict With Applicable State Law.

Whereas under prior law a "probable" conflict with state law was one ground for certiorari, Supreme Court Rule 19 omits the word "probable" and requires a definite conflict between the Court of Appeals decision and applicable state law. Petitioner has failed to sustain the burden of showing such a conflict.

None of the parties have disagreed that the applicable statute of limitations is the Florida three-year statute. Nor has there been any disagreement as to the law of Florida on the question of when the limitation period commences to run. As Judge Tuttle's majority opinion in the Court of Appeals stated: "All parties seem to agree that 'limitation never commences to run until the time when the plaintiff could first have maintained his action to a successful result.'" *Ross* v. *Stanley, supra* at 648, *Petition for Cert.* 6a.

The question of Florida law thus becomes: when does a cause of action for a breach of fiduciary duty arise? Both majority opinions and the dissenting opinion are in agreement: it arises upon the "breach of the fiduciary rela-

tionship resulting in injury." The majority held that, in this case, the breach of fiduciary duty alleged was the awarding of the contracts to the Contracting Firms, and the injury alleged was the exposure to the danger that the Commission might remove a portion of the payments to the Contracting Firms from Transmission's rate base. As stated by the Court below:

> "The circumstances alleged to have existed at the time the contracts were executed in November, 1958, unquestionably would have supported a bill in equity for an accounting based on a breach of the fiduciary relationship resulting in injury, the damages from which could not be computed until a later date. Such an action for accounting from allegedly faithless fiduciaries is fully recognized in Florida. *R. O. Holton & Co.* v. *Hull,* 1939, 140 Fla. 687, 192 So. 229. In *Royal Indemnity Co.* v. *Knott,* Fla. 1931, 136 So. 474, 478, the Supreme Court of Florida said '[a]nd it may be said generally that whenever there is a fiduciary relation such as that of trustee, agent, executor, etc., the right to an accounting in equity is undoubted. The right in such cases is based upon the substantive equity of trusts which jurisdiction equity always had. 1 Ency. Pl. & Pr. 96. . . .'
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> • • •
>
> "All the breaches of fiduciary duty alleged in the complaint occurred not later than November, 1958. These breaches of fiduciary duty gave rise to the right in the plaintiff to have an accounting made of the damages that would accrue therefrom. The fact that the amount of the damages could not be ascertained until a later date was the very circumstance that required the filing of proceedings of an equitable nature. . . ." *Ross* v. *Stanley, supra* at 649-650, *Petition for Cert.* 9a-10a.

Town of Miami Springs Springs v. *Lawrence,*[5] the only case on this point cited by the dissenting opinion and Peti-

[5] 102 So. 2d 143 (Fla. 1958).

tioner, does not conflict with the above principles. The cause of action there was an action against the town for "damages to property" arising from the overflow of waters onto plaintiffs' land caused by the action of the town in raising the level of an adjoining street. The action of the city in raising the level of the street was proper, and no invasion of the plaintiffs' legal rights occurred until the subsequent overflow. The Court, in dealing with the law applicable to overflow cases, said:

> "And we agree that the better rule *in this class of cases* (suits for damages from overflow of land caused by artificial construction or obstruction) is that the statute does not begin to run until actual harm is inflicted to the plaintiff's land, regardless of the installation date of the construction or obstruction causing the overflow. . . . (Emphasis added.)
>
> • • •
>
> "In the instant case, however, there was no direct invasion of the plaintiffs' property by the raising of the elevation of the street; the 'accident or misfortune' resulting in damage to plaintiffs' property was the overflow onto and impounding of surface waters on plaintiffs' property, and *until that occurred the plaintiffs could not have stated a cause of action for 'damage to property'*. . . ." (Emphasis added.) *Town of Miami Springs* v. *Lawrence, supra* at 145.

In the instant case, the gravamen alleged is a breach of fiduciary duty. As the majority below held, under Florida law, this action as alleged was wrongful *eo instanti,* constituted an immediate invasion of the Petitioner's rights and created an immediate right to an equitable accounting of the damages that would accrue therefrom. *Town of Miami Springs* does not conflict with this holding nor the law of Florida regarding the time when suits for a breach of fiduciary duty should be brought.

Moreover, the question of how the Florida three-year statute of limitations should be applied under the particular facts of this case presents no important issue for this Court to decide. The opinions of the Courts below, rendered after those Courts had examined all the substantive and procedural aspects of this case, will not have widespread or important impact. This case clearly does not meet the criteria for the granting of certiorari.

3. The Petition For A Writ Of Certiorari Should Be Denied Because The Decision Of The Court Of Appeals Does Not Depart From The Accepted And Usual Course Of Judicial Proceedings.

The District Court, in its order dismissing Petitioner's Complaint (R 130), held as follows:

> "In an action for breach of fiduciary duty, the claim accrues at the time of the wrongful act amounting to a breach of duty. In the instant case, the second amended complaint does not allege the commission of any wrongful act amounting to a breach of fiduciary duty occurring after November 3, 1958. The original complaint was filed on August 3, 1962. It therefore affirmatively appears on the face of the complaint that *the claim is barred by the statute of limitations insofar as it alleges a breach of fiduciary duty.*" (Emphasis added.)

The District Court order then went on to hold that:

> "The claim for unjust enrichment cannot accrue, *if at all,* until such time as the Federal Power Commission's determination of the rate base becomes final. Before such time, the claim is premature and cannot be maintained." (Emphasis added) (R 131-132).

It is important to note that the District Court did not say that the Petitioner had a claim for unjust enrichment. The District Court dismissed the complaint as to all of the Respondents with prejudice as to any claims arising from

a breach of a fiduciary relationship, but without prejudice to the right of Petitioner on his unjust enrichment theory, *if he had one.*

Petitioner appealed from the entire judgment of the District Court and brought all issues below before the Court of Appeals. In his original and reply briefs in the Court of Appeals, Petitioner argued that he had alleged a separate cause of action for unjust enrichment which was neither time-barred nor premature.[6] The Court of Appeals rejected Petitioner's arguments and held that Petitioner had alleged only one cause of action and that cause was based on a breach of fiduciary duty which, as the District Court had held, was barred by limitations. As the Court of Appeals said:

> "The profit-making of the defendants cannot be separated from the damages to the corporation; they are absolutely equivalent. There is no difference, quantitative or qualitative, between the delay in the advent of damages following the execution of the contracts and the delay in the advent of defendants' profits. . . ." (Footnote omitted.) *Ross* v. *Stanley, supra* at 650, *Petition for Cert.* 11a.

Judge Simpson in his concurring opinion in the Court of Appeals stated that:

> "First, I would emphasize that the Complaint here sets forth only one claimed breach of legal duty; only one 'claim' or 'cause of action', not two; only one basis

[6] Petitioner, at page 2 of his original "Brief for Plaintiff-Appellant" filed below with the Court of Appeals, listed five questions to be decided on appeal. The third question, as stated by Petitioner, was: "Are the claims time-barred or premature (R 119-120, 125, 129-132)? (Point III)". Point III A. of that brief, at page 36, specifically asserted that the claim for unjust enrichment was not time-barred. In his "Reply Brief for Plaintiff-Appellant," at page 17, the Petitioner again argued, under Point II A., that the claim for unjust enrichment was not time-barred.

for recovery. The only duality I can discover is in theories of recovery and computation of damages.

"It is sophistry to assert the existence of two claims, one for 'breach of trust' and a separate claim for 'unjust enrichment', giving rise to an equitable right to an accounting. (Footnote omitted.)

* * *

"Our holding, in summary, is: that only one claim, not two, existed; that all, not part of it, was time-barred under the Florida Statute when suit was brought; and that the district court's attempted dichotomy was impermissible, as without legal or factual basis." *Ibid.* at 651, *Petition for Cert.* 13a-14a.

Accordingly, the Court of Appeals held that:

"The judgment of the trial court to the extent that it dismissed the claim as being barred by the statute of limitations is affirmed. The judgment of the trial court is remanded to permit the remainder of the judgment to be amended in a manner not inconsistent with this opinion." *Ibid* at 650, *Petition for Cert.* 12a.

Now Petitioner argues that the Supreme Court of the United States should grant his Petition for Certiorari because the Court below ruled on the very question which he himself had raised. Even if the Petitioner could otherwise bring the action of the Court of Appeals within the fact situations of the cases he cites on page 20 of his Petition for Certiorari, he should not be heard to complain of the action of the Court of Appeals which he himself invited. He has waived any right he may have had to complain of the Court's action in this respect.

Moreover, the action of the Court of Appeals was correct. Unlike the cases cited by Petitioner, here the entire judgment, with all issues, was brought up on appeal by the

Petitioner and fully argued. The Court of Appeals, having decided that only one cause of action was alleged, certainly had the power to affirm the judgment of the trial court which held that cause of action was barred by limitation, and to remand in order to permit the trial court to remove any inconsistencies therein.

CONCLUSION

For the reasons stated, Respondents Florida Gas Company and Florida Gas Transmission Company pray that the Petition for a Writ of Certiorari be denied.

Respectfully submitted,

By .....

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November 10, 1965

PROOF OF SERVICE

I, Robert F. Campbell, one of the attorneys for Florida Gas Company and Florida Gas Transmission Company, among the respondents herein, and a member of the Bar of the Supreme Court of the United States, hereby certify that on the 9th day of November, 1965, I served copies of the foregoing Brief on Frank Ross, Petitioner herein, by mailing a copy in a duly addressed envelope, with air mail postage prepaid to William E. Haudek, Attorney for Petitioner, 295 Madison Avenue, New York, New York, 10017. I also served copies of the foregoing Brief on the following:

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IN THE

Supreme Court of the United States

October Term, 1965

No. 659

FRANK ROSS,

Petitioner,

—versus—

F. E. STANLEY, et al.,

Respondents.

REPLY BRIEF FOR PETITIONER

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TABLE OF CONTENTS

PAGE

I. Since petitioner's claim is rooted in federal law, the time of its accrual presents an important federal question, which should be reviewed by this Court 1

II. The existence and extent of the fiduciary obligations of the directors of a natural gas company present a further important federal question, which should be reviewed by this Court 2

III. Even if petitioner's claim were based only on state law, review by this Court is imperative because of the serious error below and its grave impact on the administration of the Natural Gas Act 4

IV. The modification by the Court below of the District Court's decision to petitioner's detriment should be reviewed by this Court 5

CERTIFICATE OF SERVICE 7

TABLE OF CASES

Cope v. *Anderson*, 331 U.S. 461 (1947) 1, 2

Fisher v. *Whiton*, 317 U.S. 217 (1942) 2

Letulle v. *Scofield*, 308 U.S. 415 (1940) 5

Moviecolor Ltd. v. *Eastman Kodak Co.*, 288 F. 2d 80 (Cir. 2, 1961), cert. den. 368 U.S. 221 2

Morley Construction Co. v. *Maryland C. Co.*, 300 U.S. 185 (1937) 5-6

Rawlings v. *Ray*, 312 U.S. 96 (1942) 2

S.E.C. v. *Chenery Corp.*, 318 U.S. 80 (1943) 3

S.E.C. v. *Chenery Corp.*, 332 U.S. 194 (1947) 3

St. Croix Falls M.I. Co., 3 F.P.C. 13 (1942) 3

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REPLY BRIEF FOR PETITIONER

I. Since petitioner's claim is rooted in federal law, the time of its accrual presents an important federal question, which should be reviewed by this Court.

According to respondents, the application of the Florida statute of limitations can involve no question of federal law. Respondents misconceive the issue before this Court.

There is no dispute that the Florida statute of limitations controls, whether petitioner's claim rests on state or federal law; for where, as here, no limitation period is federally prescribed, even a federal claim is governed by the appropriate state statute of limitations. *Cope* v. *Anderson*, 331 U.S. 461, 463 (1947).

Nor is there any dispute that, under Florida law, the three-year limitation period did not begin to run until

"the plaintiff could first have maintained his action to a successful result" (Op. below, p. 6a).

The only, and decisive, question then is: When did petitioner's claim accrue so that he could have maintained an action thereon to a successful result?

This question, we submit, is one of federal law. Petitioner's claim, we have shown, is based on federal law; it arises from the regulatory scheme of the Natural Gas Act (Pet. pp. 10-13 and *infra,* Point II). It is thoroughly settled that the time at which a federal claim accrues for limitation purposes is determined by federal law, even though otherwise a state statute of limitations applies. *Rawlings* v. *Ray,* 312 U.S. 96, 98 (1942); *Fisher* v. *Whiton,* 317 U.S. 217, 218, 220 (1942); *Cope* v. *Anderson, supra,* (331 U.S. at 464); *Moviecolor Ltd.* v. *Eastman Kodak Co.,* 288 F. 2d 80, 83 (Cir. 2, 1961), cert. den. 368 U.S. 221.

In *Rawlings* and in *Fisher, supra,* this Court granted certiorari in order to determine the time at which the federal claims there involved accrued. The accrual issue here presents at least equally important and far-reaching questions (Pet. pp. 18-19).

II. The existence and extent of the fiduciary obligations of the directors of a natural gas company present a further important federal question, which should be reviewed by this Court.

According to respondents, the fiduciary duties of the directors of a natural gas company rest solely on state law, so that state law determines the time when a claim for breach of those duties accrues. Again respondents misconceive the issue.

Under the Natural Gas Act, as administered by the FPC pursuant to the "no-profit-to-affiliates" rule, the directors of a natural gas company and their associates are subject to the fiduciary principle that "a trustee ought not to make a profit dealing with a trust"; *St. Croix Falls M.I. Co.*, 3 F.P.C. 13, 21 (1942). This principle, arising as it does under the Act, is a rule of federal law. It supports petitioner's claim, whether or not state law recognizes fiduciary duties of equal breadth and scope.

In *S.E.C.* v. *Chenery Corp.*, 332 U.S. 194 (1947), the directors of a utility holding company had purchased the company's preferred stock while the company was being reorganized under the Public Utility Holding Company Act. Although previously, in the first *Chenery* case (*S.E.C.* v. *Chenery Corp.*, 318 U.S. 80, 88-90 [1943]), the purchases had been held not to violate the directors' common law fiduciary duties, the SEC found the purchases to be contrary to the fiduciary standards it deemed requisite to the administration of the Utility Act. This Court, in the second *Chenery* case, sustained the SEC.

The analogy to the present case is clear and cogent. Neither the Utility Act nor the Natural Gas Act makes express provision for the fiduciary duties of the directors of the regulated companies. Nevertheless, the agencies charged with the administration of the statutes—the SEC there, the FPC here—acting under the authority of the statutes, have imposed such duties as a matter of federal law. In *Chenery*, this Court reviewed, and upheld, the fiduciary standards established by the SEC under the Utility Act. It should similarly review—and ultimately uphold—the fiduciary standards established by the FPC under the Natural Gas Act.

III. Even if petitioner's claim were based only on state law, review by this Court is imperative because of the serious error below and its grave impact on the administration of the Natural Gas Act.

Neither the Court below nor respondents have attempted to show how an action brought by petitioner in 1958 could have recovered as much as a dime. No losses or profits had arisen in 1958; there was no assurance that they would ever arise. To hold, as did the Court below, that petitioner's claim accrued in 1958 would mean that fiduciaries can be successfully sued for damages or profits which do not exist and may never come into existence. That is not and cannot be true, whether federal law, Florida law or any other law applies.

Respondents insist that in 1958 petitioner could successfully have demanded an accounting of the damages or profits that "would accrue". No authority—federal, Florida, or other—supports a right to an accounting for future and uncertain damages or profits. Common sense tells that one cannot account for what does not exist and may never exist. It is equal common sense that no "constructive trust" can be imposed on the profits of a fiduciary until he has them. Respondents had no profits until 1960, well within the statutory period.

Respondents suggest that the 1958 contracts constituted an "invasion of the plaintiff's rights", giving rise to nominal damages. Equity courts, however, do not award nominal damages; nor is there room for nominal damages in an action for breach of fiduciary duty (Pet. pp. 14, 16). The Court below expressly disclaimed reliance on nominal damages (Op. pp. 6a-7a).

Whether federal or Florida law governs, the Court below plainly misapplied it by outlawing petitioner's claim before it could be successfully asserted. This error, and its far-reaching and grievous consequences (Pet. pp. 18-19), urgently call for remedial action by this Court.

IV. The modification by the Court below of the District Court's decision to petitioner's detriment should be reviewed by this Court.

It is undisputed that, on petitioner's appeal, the Court below converted a dismissal without prejudice into one with prejudice. It is undisputed that this change was detrimental to petitioner. It is thoroughly settled that, absent a cross-appeal, an appellate court cannot change the lower court's decision to the appellant's detriment (Pet. pp. 19-20).

Respondents say that an appellate court may *affirm* on grounds other than those invoked by the first court; *Letulle* v. *Scofield,* 308 U.S. 415, 421 (1940). We agree; but it does not follow that the first decision may be *modified* to the detriment of the appellant.

Respondents say that petitioner waived this limitation of appellate jurisdiction by appealing from the entire judgment of the District Court (R 134) and by designating as error the dismissal of his profit claim as premature (R 135). There was no waiver. The cited documents sought a reversal in petitioner's favor. They did not consent to a modification detrimental to petitioner.

Respondents suggest that a modification detrimental to the appellant is permissible where the matter is closely related to the subject of the appeal. This Court never recog-

nized such an exception. In *Morley Construction Co.* v. *Maryland C. Co.*, 300 U.S. 185 (1937), such close relation certainly existed; this Court struck down the modification because it was detrimental to the appellant and no cross-appeal had been taken.

We submit that the errors below urgently call for the exercise of this Court's supervisory power. The writ of certiorari should be granted.

Respectfully submitted,

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November 26, 1965.

CERTIFICATE OF SERVICE

I hereby certify that, on this 26th day of November, 1965, I have mailed copies of this brief, with airmail postage prepaid, to the attorneys for the respondents, to wit:

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